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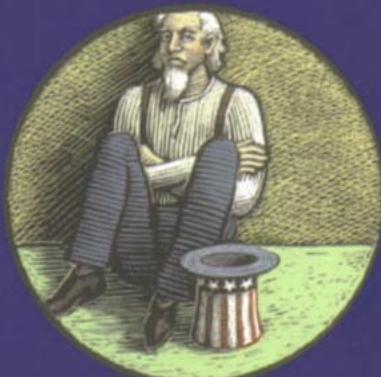
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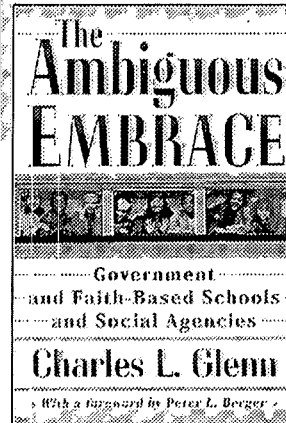
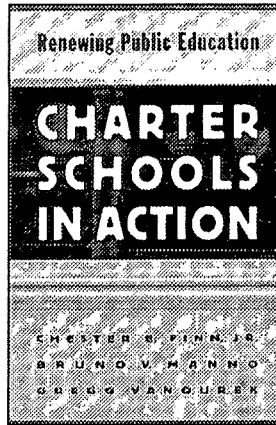
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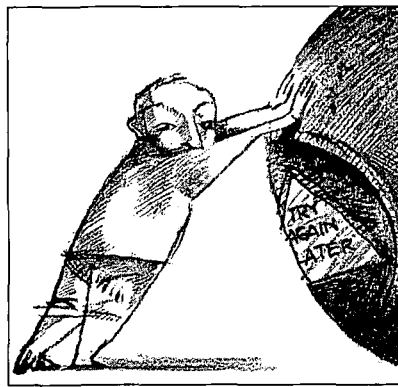
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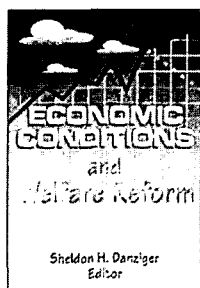
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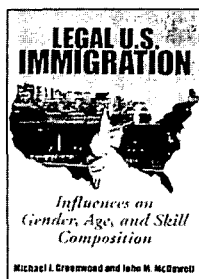


Economic Conditions and Welfare Reform

Sheldon H. Danziger, Editor

The robust economy of the late-1990s and the enactment of welfare reform have combined to significantly reduce the welfare caseload in the U.S. The contributors to this volume offer evidence on three key issues related to this reduction: 1) whether the downward trend is due mainly to the economy or welfare reform, 2) what has happened to welfare recipients' work and earnings outcomes, and 3) what states are likely to do in the event of a reversal of the downward trend in caseloads as a result of a recession. The analyses offered in this volume should serve as a "road map" to point the direction toward reforming welfare reform.

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MICHAEL H. ARMACOST

Priorities 2000



To govern, as they say, is to choose. To choose requires the assertion of priorities, which often provokes conflict. In our system, we turn generally to politicians to resolve those conflicts.

Think tanks can at best ease tough choices by clarifying their costs and benefits in a timely way. This is the kind of analytic work Brookings scholars enjoy most and do best. This issue of the *Brookings Review* represents an effort to identify and define some of the tough choices we face as a nation in a key election year.

It is striking how much the political and economic environment for such choices has changed in the past decade.

Rapid economic growth has ushered in an era of fiscal surplus and allowed the federal government to shrink as a percentage of our GDP without actually curtailing central government spending on defense or domestic programs.

The continuing devolution of federal responsibilities to states and municipalities permits a larger number of important choices to be made at levels of government closer to the people.

Divided party control of the White House and Congress has, perhaps serendipitously, encouraged fiscal prudence. A Democratic president has blunted Republican bids for big tax cuts, while Republican control of Congress has contained Democratic efforts to

expand discretionary social spending. The benign result: most of the budget surplus has been reserved for paying down the national debt while seeking a broader political consensus for long-term fixes in federal health care and social insurance programs.

In an era when as many as 30–40 percent of voters identify themselves as “independents,” it is scarcely surprising that both major parties are turning to centrist candidates. This does not eliminate debates over residual differences of political philosophy, but does encourage a search for politically achievable remedies for pressing national problems.

In an era of peace, foreign policy issues have been “the dog that didn’t bark” in the campaign to date. Woodrow Wilson noted, prior to his inauguration, what an irony of fate it would be if his administration had to deal primarily with foreign affairs. This was indeed the irony that fate had in store for him and most of his successors. One hopes that discussion of these questions will intensify once the competition shifts from the selection of party standardbearers to a choice between them.

Whatever the outcome in November, the country is experiencing another “era of good feelings,” and we have good reason to celebrate not only a prosperous economy, but a political system which, for all its apparent deficiencies, appears well attuned to these times.

Michael H. Armacost is president of the Brookings Institution.

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Seizing the Economic Opportunity



Beware Candidates Promising Everything

BY ALICE M. RIVLIN

The fantastic performance of the U.S. economy challenges Americans to use their new opportunities well. The election of 2000 is a chance for voters to hear how candidates propose to make the most of the good fortune that has befallen us. All candidates, whether for the presidency or for Congress, will try to convince voters that their political party is responsible for the economy's success and best able to ensure its continuation. All will have proposals for using the additional resources that high growth makes available.

That the economy is doing astonishingly well is beyond dispute. Total output has been growing continuously for longer than at any time in our history. Unemployment is at a 30-year low. Productivity growth has accelerated. Incomes are rising. Inflation has been quiescent. The federal budget, along with most other government budgets, is in substantial surplus.

To be sure, some clouds darken the sunshine. Prosperity has left behind some groups, especially the unskilled and less educated. Moreover, the high-flying stock market, the rapid accumulation of private-sector debt, and the growing obligations of Americans to foreign investors make for some nervousness about the long-run sustainability of the good economic news. But recent economic performance and near-term prospects are undeniably positive. In contrast to many

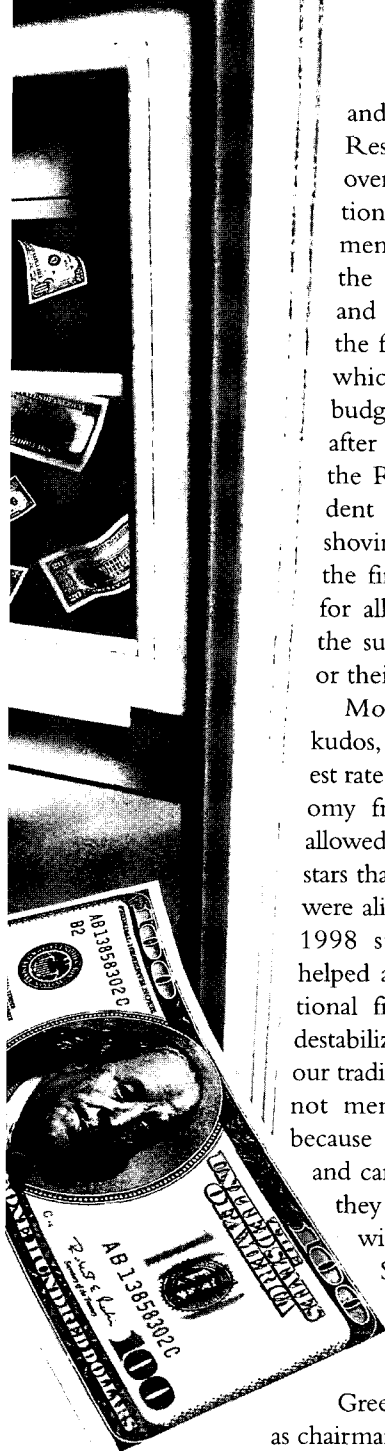
previous elections, such as 1992, the national mood is decidedly upbeat, and for good reasons.

There is more room for argument about who gets the credit, and plenty of opportunity for all candidates to claim some of it. The initial credit, of course, goes to the private sector, whose energy and resilience have been remarkable. The most gratifying surprise has been the recent acceleration of productivity growth. In the past three years, the average growth in output per hour worked has returned to the rates that propelled rapidly rising standards of living from the end of World War II until productivity slowed mysteriously in the early 1970s. The recent productivity surge has allowed firms to absorb wage increases, even an oil shock, without raising prices much or losing profitability. The boost in productivity is undoubtedly related to high investment in the 1990s, the maturing of the computer and telecommunications revolutions, the shortage of skilled workers in tight labor markets, and intense competition at home and overseas, but no one is quite sure why productivity is accelerating right now or how long the speed-up will last.

The private sector's great run didn't happen in a policy vacuum. It is at least partly a reflection of responsible fiscal, monetary, trade, and regulatory policies for which both political parties can rightly claim part of the credit. Moving the federal budget from huge ongoing deficits to substantial surplus has put downward pressure on interest rates, fostered investment,



Alice M. Rivlin, former vice chair of the Board of Governors of the Federal Reserve Board, is a senior fellow in the Brookings Economic Studies program.



and made it easier for the Federal Reserve to keep the economy from overheating. Serious deficit reduction was kicked off by the agreement between President Bush and the Democratic Congress in 1990 and dramatically pushed ahead by the first Clinton budget in 1993, for which no Republicans voted. The budget agreement of 1997, produced after protracted wrangling between the Republican Congress and President Clinton, completed the job of shoving the budget into surplus for the first time in three decades. Look for all candidates to crow a bit over the surplus and emphasize their own or their party's role in achieving it.

Monetary policy deserves some kudos, too. The Federal Reserve's interest rate increases in 1994 kept the economy from overheating and arguably allowed growth to keep going until the stars that brought the productivity surge were aligned. The rate reductions of late 1998 stabilized world markets and helped avoid another round of international financial chaos that could have destabilized the United States along with our trading partners. Most candidates will not mention the Fed's role, however, because they cannot claim credit for it and cannot influence it directly, even if they win. Moreover, the president, with the enthusiastic support of the Senate, wisely forestalled any attempts to make the leadership of the Fed an election issue by reappointing Alan Greenspan to another four-year term as chairman.

The resilience and competitiveness of the economy also owe something to the gradual deregulation of important sectors—airlines, trucking, telecommunications—over the past couple of decades. Lowering trade barriers helped, too. Members of both parties worked hard to hammer out the complex details of regulatory reform and trade agreements, often over vocal opposition. The president gets credit for bucking strong forces in his own party to fight for NAFTA and the Republicans for helping him pass it. Plenty of workers still feel injured by foreign competition, but the good economy has diffused some of their anger, so trade is unlikely to be a big issue in the campaign.

Candidates ought to focus on what they will do to keep the productivity surge going and open opportunities for all to participate in its benefits. One obvious answer is: reform the

schools and improve access to higher education and skill training for workers at all levels, present and future. Education and training will get a lot of air time in the campaign and rightly so. Unfortunately, successful national candidates will find after they get to Washington that they cannot do much to affect local schools. Their biggest opportunity for improving elementary and secondary education comes in getting citizens focused on its importance. Citizens who want better schools can do more to bring about change where they live than the president and Congress can do from Washington.

What the candidates can affect if they win is the federal budget, especially the use of the surplus. From the point of view of sustaining the high-growth economy, the best thing to do with the surplus is nothing at all—just use it to pay back the federal debt held by the public. That will lower interest rates and foster growth-producing investment.

The worst thing to do with the surplus is to use it for a big general tax cut. A tax cut would stimulate more consumer spending in an economy already threatening to overheat and force the Fed to raise interest rates. Even if the impact of the tax cut is delayed, the problem is the same. A major tax cut will shift the mix of policies toward looser fiscal policy and tighter monetary policy. That is bad for long-run growth.

Candidates will use 10-year forecasts of the surplus to make it look as though so much money is available that they can promise to do everything—cut taxes, fund new programs, and reduce the debt all at the same time. The 10-year aggregates are indeed large—the Congressional Budget Office projects more than \$4 trillion in total surplus if the economy keeps growing steadily. The economic growth rate that CBO assumes (about 2.7 percent a year) is not especially optimistic, but voters should look at the other assumptions skeptically. More than \$2 trillion of the 10-year surplus will accumulate in the Social Security trust fund. That part of the surplus is real, but it is not big enough to assure payment of Social Security benefits to future beneficiaries at currently promised rates. The Social Security surplus not only should not be touched, it ought to be increased.

The other \$2 billion of projected non-Social Security surplus is mostly a mirage, because it assumes cuts in current spending for most government programs, or unrealistic future freezes in spending, that are simply not going to happen. Voters do not want them to happen, and the candidates know it.

Surpluses based on more realistic assumptions are much smaller; indeed only about \$150 billion in the first five years. These would be more than eaten by proposals that appear to have bipartisan support—partial coverage of prescription drugs under Medicare, increased defense spending, and adjustment of the marriage penalty on the income tax, to name only three.

The extraordinary performance of the U.S. economy gives Americans a huge opportunity to invest in the future, especially to reduce the federal debt to increase the probability of sustaining the high growth for a long time. Voters will hear a lot of candidates promise that they can do that and, at the same time, deliver major tax cuts and major increases in public spending. They can't. Voters should take heed. ■

Many Strategies, One Goal

Helping
the
Americans
Left
Behind



BY ISABEL SAWHILL

“Our national prosperity should not leave anyone behind.”

AL GORE

“Today I challenge my opponents to join me in taking the money that we’ve been giving to the special interests, and spend it instead on a child in need.”

JOHN MCCAIN

“The purpose of prosperity is to leave no one out—to leave no one behind. I’m running because my party must match a conservative mind with a compassionate heart.”

GEORGE W. BUSH

“The moral imperative for getting more and more working families on the train of prosperity shouldn’t scare us; it should energize us.”

BILL BRADLEY

Isabel Sawhill is a senior fellow in the Brookings Economic Studies program.



The seemingly boundless prosperity of the past decade has left some Americans behind. In 1998, almost one out of every eight Americans—almost one in five children—was poor, defined as living on an income of less than about \$17,000 a year for a family of four.

Even poor Americans, of course, have access to goods and services (television, cars, phones, and health care) once considered luxuries. Moreover, many people are poor only temporarily or remain poor less because they lack opportunity to move up than because they fail to take advantage of the doors that are open to them. Still, poverty in the midst of plenty gives many people pause.

The leading presidential candidates, including those who have dropped out of the race, all share the goal of enabling more Americans to participate in the current prosperity. George W. Bush and John McCain want to reduce taxes on

lower-income families and marshal the “armies of compassion” within the voluntary sector. Al Gore and Bill Bradley want to increase the minimum wage and expand the earned income tax credit (an income supplement available primarily to working families with children and incomes of less than \$30,000 a year). They also propose to give almost all children access to health insurance (Bradley) or a preschool education (Gore).

Each of these proposals carries a big price tag and would absorb a big chunk of the projected federal budget surplus not dedicated to Social Security over the next decade. McCain’s tax cuts, however, are far smaller than Bush’s, while Gore’s spending proposals are more restrained than Bradley’s. Although fiscal constraint is commendable and can boost economic growth, it doesn’t benefit all income groups equally. Indeed, the rising tide that once lifted all the boats may not do so unless some of the leaks can be repaired.

Of particular interest is what is not being said in this campaign. No major candidate is proposing big trade restrictions although half of all Americans were sympathetic to those who protested the World Trade Organization summit in Seattle last year.

Nor is redistributing income through higher taxes on the wealthy on the table although concentrations of both income and wealth are at peak levels. Although Bush favors eliminating the estate tax, he has not endorsed that perennial GOP favorite, a cut in the capital gains tax.

Finally, no one on the Democratic side proposes to bring back the old welfare system. While it is too early to judge fully the new system, so far it has mostly succeeded. Caseloads have been halved since 1994, most former recipients are working, child poverty rates have declined, and children do not appear to have been harmed. Although the strong economy has helped, virtually all analysts agree that welfare reform itself, together

with new supports for the working poor, has played a substantial role.

Instead, the focus of the campaign appears to be ensuring that poor working families have the tools they need to succeed. The question is which tools do they need? A lower tax rate? A stronger voluntary sector? More income from work? More health care or child care and education for their children? Or some combination of these or other policies?

Conflicting Views of the Problem

"The success of America has never been proven by cities of gold, but by citizens of character: men and women who work hard, dream big, love their family, serve their neighbor." George W. Bush

"I want to keep our prosperity going...not by letting people fend for themselves, or hoping for crumbs of compassion, but by giving people the skills and knowledge to succeed in their own right in the next century." Al Gore

The policy debate grows out of conflicting views about the causes of poverty and inequality and the effectiveness of various ways to narrow the gaps. Research cannot resolve all the relevant questions, which hinge as much on one's basic val-

disadvantaged children, is another long-term solution. But neither will do much to improve the lives of today's adults or their families.

On the cultural front, more and more families are headed by a single parent, and among husband-wife families, far more have two earners. These developments can explain all the increase in child poverty and perhaps half the increase in income inequality since the early 1970s. Most poor children now live in single-parent families. Even when these parents work full time, they have trouble escaping poverty, especially if they must pay for child care.

Slowing the growth of single-parent families by reducing early childbearing or encouraging marriage would go a long way toward alleviating poverty, but in the interim, such families may need help supporting their children. The tension between the longer-term objective of strengthening families and the more immediate need to shore up their incomes is reflected in the contrasting approaches advocated by the candidates. Bush would rely heavily on the voluntary sector to provide the personalized attention and moral framework within which he believes the problem of poverty is best addressed. Gore also emphasizes the need to rebuild families,

poverty. As Jonathan Rauch puts it, they represent "one of the most genuinely fundamental debates in all of public policy. Are the poor the same as you and me, only poorer? Do they mainly need money? Or do they need something else?"

At bottom, the debate will always be about what should be expected of individuals as against governments in ending hardship. Too much public assistance can undermine an individual's incentives to take responsibility for his or her own actions. Too little can lead to a downward spiral of hope and opportunity and an increasingly divided society. The challenge is to design both the right amount and the right kind of assistance for those who have been left behind.

Lower Tax Rates

"We will take down the tollgate on the road to the middle class." George W. Bush

Let us begin with the tax system. Bush claims that his tax plan will help low-income families. He would cut the 15 percent tax rate to 10 percent and double the child tax credit from \$500 to \$1,000 per child. But because this credit is not refundable, doubling it does nothing for those whose incomes are so

The rising tide that once lifted all the boats may not do so unless so

ues as on how one understands the issues. But research does strongly suggest that growing poverty and inequality in recent decades have resulted from changes both in the economy and in the culture.

On the economic front, new technologies, global competition, and a more white-collar economy have increased demand for educated workers and bid up their wages. The salary differential between men with and without a college degree has more than doubled since the early 1980s. Wages of unskilled workers have declined. The wage premium for education has already begun to spur more people to get more schooling. Improving the public schools, especially those serving

but sees a greater role for government in, for example, cracking down on deadbeat dads and encouraging businesses to locate in neglected neighborhoods. Bradley advocates a more traditional program of direct income assistance to working families that will "end child poverty as we know it." McCain has endorsed such principles as promoting work, responsibility, and self-sufficiency along with devolving authority to lower levels of government and providing vouchers or tax credits for education. But he has provided almost no details on these or other domestic issues.

These contrasting positions rest on strikingly different views of what causes

low—less than \$26,000 a year for families with several children—that they owe no income taxes. Indeed, most U.S. families pay more in payroll taxes than in income taxes. Only among the more affluent do income taxes loom large.

Even among families who pay income taxes, Bush's plan is less progressive than it appears. Although lower-income families would get the biggest percentage tax cut, their after-tax incomes would grow little. A more effective, less costly way to assist the less affluent would be to cut payroll taxes or to provide a more generous earned income tax credit or a refundable child credit. (For details and different perspectives on tax proposals, see the articles by



Lloyd Wolf

the leaks can be repaired.

Henry Aaron and William Gale and by Bill Frenzel that follow.)

A Stronger Voluntary and Faith-Based Sector

"In the most affluent country of history, there are still people in need of help and hope. And there are private and religious groups in every community willing to provide both.... Without more support and resources, both private and public, we are asking them to make bricks without straw." George W. Bush

Both Bush and Gore would rely more heavily on nonprofit organizations, including churches and other religious groups, to reduce social ills. Both note the limits of government in solving

social problems and the need to engage the recipients of assistance in changing their own lives.

The push to marshal the voluntary sector is central to Bush's compassionate conservatism. He would encourage more private giving by allowing the 70 percent of all taxpayers who do not itemize to deduct contributions to charity. He would also allow faith-based groups to use public funds to provide services to the needy—as long as the money is not used for purely sectarian purposes and recipients are free to choose a non-faith-based provider. Both Bush and Gore would use the voluntary sector to help curb violence, dropping out of school, drug abuse, and teen pregnancy.

One issue with this proposal is whether the re-

sources made available by the new charitable deduction would reach their intended beneficiaries. Americans now give an estimated \$175 billion a year to nonprofit organizations, including religious groups, universities, hospitals, and cultural institutions. Less than 10 percent goes to "human services," and only some of that is for the disadvantaged. Making all charitable gifts tax deductible among non-itemizers would end up subsidizing a great deal of current giving—much of it to causes deemed worthy by the donor but with little or no impact on the poor. And, unless restricted to certain purposes, only a small share of any new giving is likely to have the

desired effect of assisting the poor.

A second concern is whether faith-based groups can and will take on the challenge of serving huge numbers of the poor. Religious groups now use private contributions amounting to some \$15-\$20 billion a year to deliver social services, mostly short-term assistance in the form of food, shelter, or clothing. The hope is that augmenting the private donations with public funds would enable the sector to do much more. But so far only 3 percent of all congregations have elected to take advantage of the public funds made available for such purposes in the 1996 welfare reform bill. A third of their leaders have expressed interest in stepping up involvement, but whether the congregations have the administrative capacity to take on more than a modest array of tasks is uncertain.

A third issue is how effective faith-based organizations are. What makes these approaches so appealing is, in Bush's words, their potential "to transform hearts and save lives." It is true that some inner-city ministries have been credited with helping reduce juvenile crime and other social problems. But the evidence remains largely anecdotal and the role of faith only poorly understood.

A final concern for many is the importance of keeping religion out of politics and politics out of religion. The Supreme Court has ruled that government may contract with faith-based organizations as long as the money is not used for "pervasively sectarian" purposes. But if too much effort is devoted to separating the two to meet constitutional requirements, then the faith component may be lost.

More Income from Work

"The foundation of our effort should be the guarantee that no one who works full time, year round, should have to live in poverty." Bill Bradley

Reflecting a public consensus that work is better than welfare—and that if you work, you shouldn't be poor—Congress has for several decades been improving programs to assist the work-

ing poor. The most important initiative is the earned income tax credit, a \$30 billion program that can provide as much as \$3,800 a year (the equivalent of an extra \$2 an hour) to a low-wage worker with children. Because the credit is refundable, families who owe no income tax can receive a direct payment from the Treasury at the end of the year. Low-income working families may also get health insurance through Medicaid, as well as child care subsidies, food stamps, and other help, none of which is counted in official measures of poverty but all of which help reduce hardship.

The major complaint about the earned income tax credit is error and fraud. Despite attempts by the Treasury to crack down, as much as one-fifth of all EITC benefits go to those who are ineligible. Critics fault Medicaid and food stamps for the opposite reason—many families who have left welfare for work but remain eligible for assistance are not receiving it, in part because of administrative problems in the states.

Another way to help working families is by increasing the minimum wage. A proposal to increase the federal minimum from \$5.15 to \$6.15 an hour failed by only two votes in the Senate late last year and is strongly endorsed by Gore, Bradley, and other Democratic candidates. Although politically popular, an increase in the minimum wage is less targeted than the EITC because some of the benefits flow to secondary earners in higher-income families. Moreover, especially if pushed too high, minimum wages may discourage employers from hiring low-skilled or inexperienced workers or may worsen inflation if the cost increases are passed along to consumers in the form of higher prices.

Many of these programs have had at least some bipartisan support, with disagreement centering on whether, or how much, to extend them further. When the Republican Congress threatened to delay payment of the existing EITC last year, George Bush openly criticized the effort to “balance the budget on the backs of the poor.”

Almost all candidates support efforts to ease access to Medicaid and food stamps among families who are eligible but not participating, a theme that Gore, in particular, emphasizes. Bradley would go further by creating a more generous EITC for families with three or more children and phasing down benefits more slowly as earned income increases. Bradley would not only increase the minimum wage but also make future increases automatic by indexing it to median wages.

Finally, most candidates have tried to remedy the EITC's unintended effect of discouraging marriage between two low-wage workers. Whether it makes sense to provide greater benefits to larger families as Bradley has proposed is debatable. Most middle-class families do not receive a raise when they have additional children. They feel constrained to limit their children to the number they can afford to support.

None of these proposals will do much to reduce the poverty that results from people not working or working very little. In 1998, 73 percent of the poor lived in families headed by an adult who either did not work or worked only part of the year. The public policy implications of this fact are viewed quite differently by different people. To some, the lack of work is an argument for providing subsidized jobs and training or for relaxing welfare



Lloyd Wolf

At bottom, the debate will always be abo

rules that require work. To others, it suggests that nonworkers have unreported sources of income from relatives, boyfriends, or off-the-books jobs. One thing is clear: the employment rates of less-skilled women are quite sensitive to both the availability of, and the net rewards to, work. From 1995 to 1998, for example, as a result of tight labor markets, welfare reform, and expansion of the EITC, the share of single mothers participating in the job market increased from 58 percent to 73 percent while the share of married mothers hardly budged. These dramatic gains suggest that current policies (including macroeconomic policies) are working to mainstream the poor.

More Health Care for Children and Low-Income Adults

"When it comes to America's health, this is not the time to be timid." Bill Bradley

Most poor children are now eligible for health insurance through two publicly funded programs, Medicaid and the Children's Health Insurance Program (CHIP), but many poor adults are not. Moreover, the rules are complex, leading to low enrollment rates and widely varying eligibility and coverage rates from state to state. Overall, 44 million Americans—16 percent of the population—lack health insurance. Both Bradley and Gore propose to cut that number, but Bradley's plan is much more ambitious.

Bradley would eliminate the two public programs, replacing them with federally funded subsidies that could be used to buy health insurance in the private market. The value of the subsidy would vary with income, but it would fully cover children in families with modest incomes (\$34,000 for a family of four) and all poor adults, including those without children. The costs of this and other Bradley health proposals, though difficult to estimate, are likely to be huge—at least \$65 billion a year.

Gore's approach is more incremental

Thus, the plan promises both to reduce the number of people who are uninsured and to boost incomes for lower-income families who now have employer-based coverage.

Investing in Child Care and Early Education

"In order to stay first in the world economically, we must become first in the world educationally." Al Gore

More than two-thirds of all mothers of preschool children are now in the workforce. Most poor mothers, who might once have relied on welfare, must now work. These developments, in combination with a belief that early education can be good for children, have put the issues of access to quality child care or a preschool experience squarely on the public agenda. The problem is especially acute for lower-income families for whom the costs of care loom large. Among families who pay for care, the average cost is around \$5,000 a year—from a third to half of family income for a single mother in a low-wage job. For her, the choice becomes whether to rely on unpaid care of dubious quality or to remain poor. Day care subsidies available through a federal

year to do so. The federal funds would match state spending dollar for dollar to encourage states to expand access to most four-year-olds. States could use a wide variety of providers, including public and private schools, day care centers, and churches.

Both Gore and Bradley would expand Head Start, but Bradley has been more explicit, earmarking \$1 billion a year over four years, a total that would cover all poor children. (Bush has also endorsed the program but wants to move it from the Department of Health and Human Services to the Department of Education to help ensure a higher-quality curriculum.)

The two Democratic candidates both emphasize investments in children, but one has staked his campaign on the importance of access to early education and the other on access to health care. Both are critical investments for at least some children who do not have such access, and both are likely to improve the economic situation of some low-income families (by either boosting their wages or lessening the cost of child care). Both would shift to the federal government some costs now borne by families, employers, or the states. Finally, both proposals extend assistance well up into the

What should be expected of individuals as against governments in ending hardship.

and much less costly. It would cover uninsured poor children and, more important, their parents (but not other adults) by boosting enrollment in, and improving access to, Medicaid and CHIP.

Bradley's plan is so costly because it would provide the same basic coverage to all lower-income Americans regardless of where they live or work. In the process it would shift substantial health insurance costs from employers and states to Washington. Some benefits would accrue, at least initially, to employers, who would be freed of the cost of covering their lower-wage workers. Faced with lower costs, these employers might then raise wages.

block grant to the states cover only 10-20 percent of all those eligible. As for the higher-quality preschool experience that many believe would most benefit children from poor families, the federally funded Head Start program does not begin to cover all those who are eligible.

Responding to these perceived needs, several candidates have promised new assistance to working families with children. Gore endorses the Clinton administration's plan to expand child care assistance by \$21 billion over the next five years. He also wants to make preschool universally available by the end of his first term and has committed \$5 billion a

middle class, but Gore's proposals tend to be less income-targeted than Bradley's.

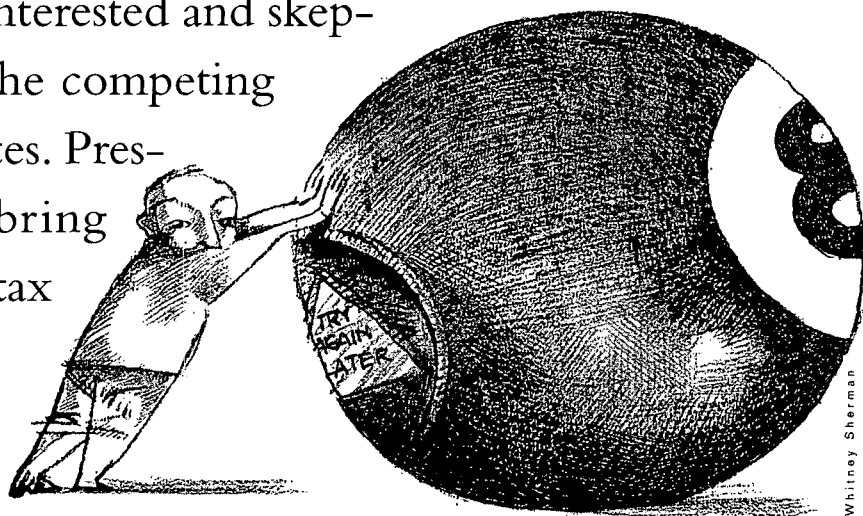
Getting Somewhere

At a time when sound bites and negative ads have become the staples of presidential campaigning, it is gratifying to see so many serious proposals on the table for debate. Although the proposals may not "end poverty as we know it" or redress in any fundamental way current concentrations of income and wealth, they are nonetheless consequential measures based on sound, if somewhat different, understandings of the underlying problems. ■

Truth in



This brief guide to election-year tax policy debates is intended to help interested and skeptical readers make sense of the competing claims made by the candidates. Presidential elections always bring forth calls for changes in tax policy, and this one is no exception. Nevertheless, not every candidate has laid out a tax plan at the same level of detail.



George W. Bush has offered an ambitious tax plan that makes big cuts in marginal tax rates for most taxpayers, increases the child credit for middle-class and high-income taxpayers, abolishes the estate tax, expands IRAs for education, and introduces a charitable deduction for nonitemizers. John McCain has proposed widening the 15 percent tax bracket and creating Family Security Accounts that would provide tax preferences for saving held at least one year. Bill Bradley supports new tax subsidies to expand health insurance coverage.

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Al Gore supports Clinton administration proposals to spur retirement saving. Both Bradley and McCain favor closing various corporate tax loopholes.

How Big a Tax Cut?

Nearly everyone likes lower taxes, but cutting taxes as much as possible and for as many people as possible may not be a political plus this year. The reason is that many voters would like to allocate prospective budget surpluses to other purposes—strengthening Social Security or Medicare or paying down the federal debt. Furthermore, excessive revenue cuts can be fiscally irresponsible. One way to dress a large tax cut in the garb

Taxes

A Voter's Guide to Election-Year Tax Talk

BY HENRY J. AARON AND WILLIAM G. GALE

of fiscal responsibility is to phase it in gradually. A slow phase-in lowers costs during the early years used in computing “long-term” effects of budget changes—five years for the House of Representatives. Bush’s tax plan would cut revenues \$483 billion over the first five years, according to his press releases (the campaign has not released revenue estimates beyond five years). But many provisions would not take full effect until after five years. The tax cut for the second five years would be more than \$1 trillion.

Another way to appear to lower the cost of a proposed tax cut is to gloss over the fact that tax cuts mean higher federal debt and interest payments. The Bush proposal, for example, would raise federal interest payments at least \$200 billion over the first 10 years, according to estimates by Brookings’s Charles Schultze and others. Taking this effect into account brings the 10-year cost of the Bush plan to more than \$1.7 trillion, more than three times the 5-year cost reported by the Bush campaign. And the costs would continue to accelerate. In the 10th year alone the tax cut and the associated interest costs would equal \$300 billion or more.

On the other hand, citizens may not receive the full benefits of a tax cut. For example, if the regular income tax were eliminated tomorrow, many people would still owe a lot under the “alternative minimum tax” (AMT). Congress enacted the AMT to prevent excessive use of tax avoidance techniques under the regular income tax. It applies to gross income less an exemption (\$45,000 for married couples), but denies filers most deductions permitted under the regular income tax. The AMT liabilities of taxpayers with unusually large deductions may exceed their regular income tax liability, in which case they must pay AMT. Most proposed tax cuts reduce regular income taxes but not the AMT. Such cuts would expose many people to the AMT, denying them some or all of the promised

cuts and complicating their taxes. Under the Bush plan, millions of taxpayers would be newly affected by the AMT because of the cut in income tax rates.

What Will the Tax Plan Accomplish?

One purported reason to cut taxes is to stimulate the economy. But the economy’s pace is already verging on the manic, a point Federal Reserve Chairman Alan Greenspan underscored in congressional testimony in February. Additional stimulation would tend to boost inflation rather than economic growth. To forestall such an outcome, the Federal Reserve, as inflation watchdog, would almost certainly react to a tax cut by boosting interest rates. When Republicans in Congress were voting for large-scale tax cuts in 1999, Greenspan opposed the cuts as irresponsible. A big tax cut could even slow growth if more government borrowing and higher interest rates choked off private investment.

One universally shared tax goal is simplicity. Unfortunately, lobbies abound for tax cuts for particular groups, but not for simplifying taxes. Every time the tax cut lobbies win, complexity grows, because each special provision requires a definition of who and what is eligible. That definition requires interpretation by the filer and the IRS, adds lines to the tax return, and leads to audits. Furthermore, one group’s win inevitably emboldens others to try their luck too. As concessions multiply, special rules proliferate. As tax collections from one group after another fall, the marginal tax rates needed to maintain government revenues increase, in turn creating more demand for special subsidies.

Many politicians claim their tax cuts help the poor. But few tax cuts do, for a simple reason: the poor pay little or no income tax. Reporting the percentage change in income taxes can make a cut of even a few dollars sound like a big break for

Aggregate federal tax revenues were 20.5 percent of GDP in 1998, the highest since 1944.

About half of federal revenues come from the income tax, 10 percent from the corporate tax, 33 percent from payroll taxes, 1.5 percent from the estate and gift tax, and the remaining 7 percent from other taxes.

About 30 percent of tax filers face a zero tax rate, 46 percent face a 15 percent rate, 20 percent are in the 28 percent bracket, 2.0 percent in the 31 percent bracket, 0.8 percent face a 36 percent rate, and 0.5 percent are in the 39.6 percent bracket.

About 74 percent of households pay more in payroll taxes than in income taxes, including about 90 percent of households in the bottom 60 percent of the income distribution.

Between 1977 and 1999 the average federal tax burden fell among the bottom 40 percent of the population, rose slightly among the middle 20 percent, and rose about 1 percentage point among the top 40 percent of households. For the top 1 percent of taxpayers, however, the tax burden fell 5.3 percentage points (or 13 percent).

Between 1977 and 1999 real after-tax income fell 10 percent in the bottom two quintiles and 3 percent in the middle quintile, while growing 6 percent in the fourth quintile and 38 percent in the top quintile. In the top 1 percent, after-tax income grew 120 percent.

About 29 percent of tax filers itemize deductions.

About 2 percent of decedents have taxable estates. Among taxable estates in 1997, 85 percent had wealth below \$2.5 million, 15 percent above \$2.5 million. The smaller estates accounted for 30 percent of all estate tax revenue and paid 12 percent of their estates in tax. The larger estates accounted for 70 percent of estate tax revenues and paid 20 percent of their estates.

The IRS will audit about 0.3 percent of 1999 individual income tax returns, down from 1.6 percent in 1981.

Tax evasion (illegally reducing one's tax burden) varies dramatically by type of income. For wages, the estimated evasion rate is about 1 percent. For farm and small business income, it is about 31 percent. For all income, the average rate is about 17 percent.

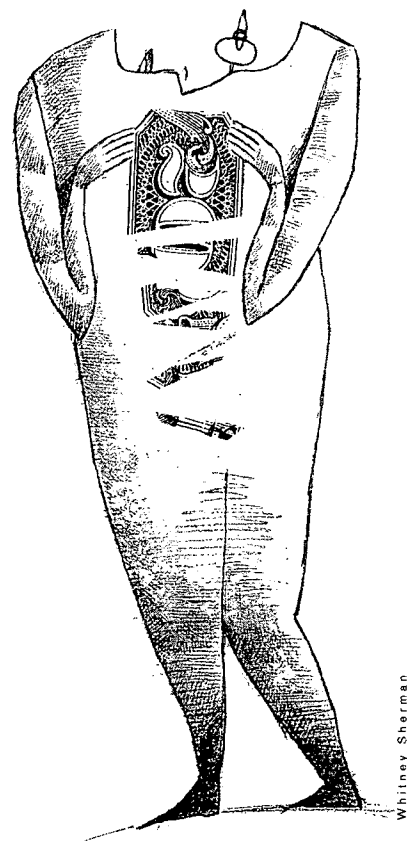
Overall tax burdens—federal, state, and local—are lower in the United States than in most other industrialized countries. In 1997, of the 29 OECD countries, the United States was 25th in terms of taxes as a share of GDP.

low-income workers. Bush and his advisers, for example, note that his proposed cut reduces income taxes for households making less than \$20,000 a year by 100 percent. That sure sounds compassionate—a lot more compassionate than saying that poor households get cuts averaging less than \$125 while wealthy households' cuts average more than \$20,000.

McCain's proposal to help "lower- and middle-class taxpayers [who] are hardest hit by the current system" by widening the 15 percent bracket also makes use of distributional doublespeak. Three-quarters of tax filing units are already in the 15 percent bracket or the zero bracket. Extending the 15 percent bracket can't help them. It only helps the top 25 percent of filers.

When there is no way short of misrepresentation to portray a tax cut as pro-poor, tax cut advocates often revert to plan B: an income tax cut has to help the rich because the rich pay most of the taxes. To be sure, high-income households do pay most of the income tax, but people must pay other taxes too. For 74 percent of American families, the payroll tax is a larger burden than the income tax. Cutting the payroll tax itself is not the answer: every penny of these revenues is needed to cover current and future costs of Social Security and Medicare. But other tax measures could help these low earners. The income tax code contains many credits designed to help people meet onerous expenses, such as child care. But low-income workers with little or no tax liability derive negligible benefits from these credits because almost all are limited to the amount of tax due. Only the earned income credit is refundable. Making the child care credit refundable or adding a refundable credit for payroll taxes would ease considerably the burden on low-income households.

All four presidential candidates have proposed to encourage various worthy public policy goals—education, retirement saving, investment—through tax breaks. But that strategy is often inefficient, yielding small incentive effects per dollar of revenue reduction. For example, universal tax credits to encourage people to buy health insurance would go not only to the 16 percent of nonelderly adults who now lack insurance, but also to the 84 percent who already have it. If



Whitney Sherman

half the uninsured use the credit to buy insurance and all who are insured simply use the credit to reduce their tax bill, \$84 will go to the "already-insured" for every \$8 that goes to the uninsured. Now, health insurance coverage may be a good thing. But whether it is worth spending \$92 to direct \$8 to health insurance is far from clear. As a result, Bradley, Gore, and others have proposed targeting the tax cut to lower-income households. That reduces the revenue cost and may well improve the cost efficiency of the proposal, but it also requires phase-out rules that can become quite complex and that act as implicit high marginal tax rates on households in the phase-out range.

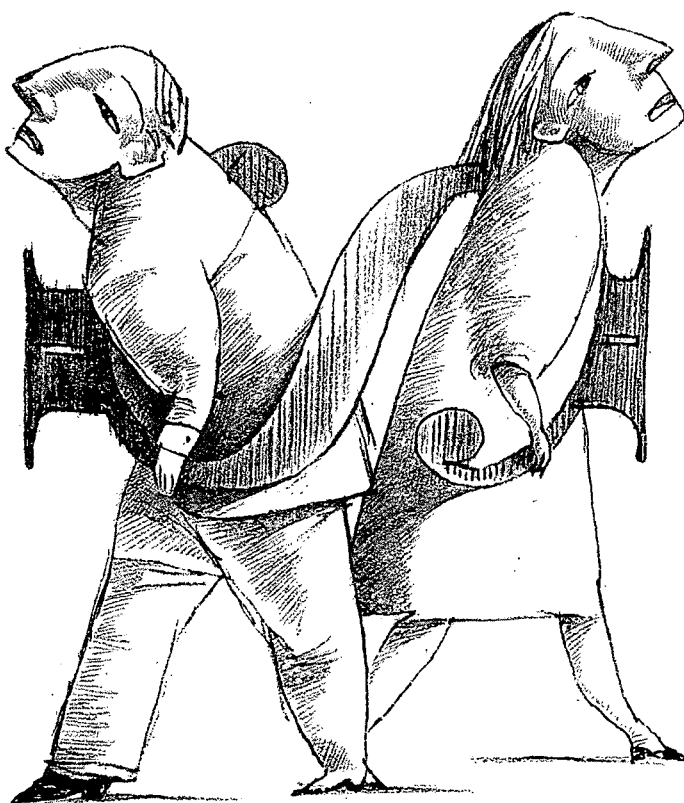
Odds and Ends

Two tax issues long under discussion are the estate tax and the marriage penalty. Proposals to abolish the former have increased of late. The estate tax is doubtlessly complex, but it is a subject of much misinformation. Many politicians claim, erroneously, that we need to abolish the estate tax because it destroys small businesses and forces sales of family farms. But farmers and small businesses already have double the normal estate tax exemption, and their heirs have 10 years to pay any tax that is due. With even a modicum of planning, they can buy life insurance to cover estate tax liabilities. The vast majority of farms and small businesses are not subject to estate taxes when the owner dies. Farms account for less than 0.5 percent of taxable estates, and small business wealth accounts for less than 10 percent. The typical dollar in estate tax revenue comes from a taxpayer who looks more like Steve Forbes than the owner of the corner grocery or the tiller of 600 acres.

The marriage tax is also controversial and widely misunderstood. About 42 percent of married couples pay more tax than they would if they were single and their income and deductions were the same. But an even greater share of married couples—51 percent—receive marriage bonuses: they pay less in taxes than they would if they were single. Marriage penalties tend to arise when husbands and wives have relatively equal income, bonuses when they have unequal incomes or when one spouse does not

work. Although most people think that taxes should be neutral with respect to marriage, the goal is unachievable as long as tax rates are progressive and couples whose total income is equal are taxed equally. Under the current system, eliminating all marriage penalties is possible only by penalizing single filers.

The marriage penalty can be addressed in many ways. Some focus on low-income filers, others on high-income filers. Some reduce revenue more than others. Bush's plan looks promising. It would allow married couples to deduct 10 percent of up to \$30,000 of earnings of the lower-earning spouse. The deduction would reduce the marriage penalty while largely avoiding raising the marriage subsidy.



Where Do We Go from Here?

Many of the plans above pursue worthy causes, but they will ultimately intensify citizens' frustrations because they make taxes more complicated. While Americans argue endlessly about how high taxes should be and who should pay them, there is universal agreement that taxes should be simplified. A politician who took simplification seriously might find a wide and enthusiastic following. Instead, it seems to be a safe bet that, whoever is elected president, taxes are going to become more complex. ■

Internet Taxes

The newest issue in tax policy is how to tax Internet sales. Although some have proposed exempting the Internet from taxes, common sense and economic principles indicate that retail sales should be taxed equally, wherever they occur. There is no reason to punish "brick-and-mortar" establishments by taxing them more heavily than their Internet competitors. Currently, taxing Internet sales would be complex because sales tax rates and bases vary widely from state to state, but conforming changes would not only make it easier to tax Internet sales but also be valuable in their own right. If state sales taxes covered similar commodities, applying them to retail sales on the Internet would be easy, given the information that Internet buyers already provide with their credit card purchases. Another possibility would be for the federal government to tax all Internet (and catalogue) retail sales at an average rate and distribute the proceeds among states on a formula basis.

The Tax Cut

Will It Rest in Peace or Shine in Glory?

BY BILL FRENZEL

To the surprise of no one, the massive Republican tax cut bill of 1999 sank from sight as soon as President Clinton vetoed it. Having passed it by slim margins, the GOP majority in Congress made no attempt to override, and a huge public yawn soon stilled brave Republican tax cut talk. The year ended anticlimactically with the extension of a handful of expiring tax cuts.

Tax Expectations: 2000

Republican leaders in Congress are singing a more subdued song this year. Plans center on tax cuts only about one-sixth as large as last year's. This year's brave talk is that the president will have to sign the bill. Don't bet the lunch money on that.

President Clinton routed the Republicans with his veto of the Gingrich Reconciliation Bill in 1995. He vetoed the tax cut last year. In between he routinely overpowered Congress on spending decisions. With congressional margins thin, the lame duck is still more than a match for Congress.

This year tax policy will get far more attention on the campaign trail than at the Capitol. Presidential candidates can make tax promises secure in the knowledge that future surpluses will not be imperiled by tax cuts. Tax policy changes, if any, will be small. To do more, Congress will have to move farther toward President Clinton than it is usually willing to go. In a presidential election, with the House of Representatives perceived to be up for grabs, neither party is in a hurry to make the other look good. Also, the chairman of the Senate Finance Committee has a tough reelection fight this year. He is certainly not looking for failed causes.

That leaves a relatively clear tax field for the presidential candidates. The Republicans, in differing degrees, prefer to return future surpluses to taxpayers. Both Democrats want to spend much of that surplus on expanded health programs, with emphasis also on education and the environment. Congress will not be a pushover in 2001, but the next president

can have a strong say on the direction of tax and fiscal policy for the coming decade.

Tax Cut Probabilities in the New Millennium

Today Americans prefer paying down the debt to receiving tax cuts. Because future surpluses are not guaranteed and because taxpayers cannot easily see how much of the surplus is their share, that attitude is not irrational. But if the surpluses continue to grow as predicted, taxpayers may want their hour in the sun too.

This year, according to the Office of Management and Budget, we are being taxed at a rate of 20.7 percent of gross domestic product—the second highest rate (after 1944) in U.S. history. The rate may be lower than that

in most other developed countries, but it has always been so.

While citizens have not yet accepted the “You deserve a cut today” message, they also lack confidence that federal spending programs are effective. When the message becomes “Congress, or the president, will spend the surpluses if they are not returned to the taxpayers,” it resonates a little better. Spending ceiling violations in fiscal 2000 and the almost certain prospect of more violations in fiscal 2001 lend that message credibility.

Counterarguments that surpluses are not guaranteed and that paying down debt is better for the economy are valid and useful to the tax cut debate. But if the good times continue to roll, the arguments will diminish in effectiveness. The redistributionists' lament that tax cuts go to affluent people is undeniable, but it ignores the idea that tax cuts ought to go to taxpayers. While a progressive tax system is worth maintaining, it is not essential to make it more progressive with every tax cut.

In this same vein, the tax code is not necessarily the way to boost the income of low earners. Tax incentives have limited effectiveness. Refundable credits—tax cuts for people who do not pay taxes—work fine until the system is overloaded and the claimants figure out how to make it work. Big income supplement plans are better placed, better managed, and certainly better policed in a traditional spending program.



Bill Frenzel is a guest scholar in the Brookings Governmental Studies program and a former member of the House of Representatives.

A Better Solution

By 2001 it will be time again to consider comprehensive tax reform. The last major reform was in 1986 (the one before that in 1969). Yearly tax bills in the intervening years have complicated the code. The way companies and individuals handle their business has changed dramatically. The way in which they are taxed has not. Old mistakes have been exacerbated by new conditions. Because of the way tax law is made, the tax system is awkward at best, but after years without overhaul, it has become nearly unmanageable—bad for the taxpayers and worse for the tax collectors.

Simplicity has been a goal, but never an achievement, of tax reform. In a complicated society, perhaps it is unattainable. Workability is a more achievable target, given the tax policy perpetrators' predilection for complication. Workability lacks the "buzz" of simplicity but serves a similar purpose.

Some day the system will have to be friendlier to saving and less so to consumption. The payroll tax has become a disincentive for employers and an excessive burden for individuals. Globalization has made equalizing the tax load on domestic and imported goods and services more important. The list of other needed improvements is lengthy.

If the time for a tax cut ever comes again, it would be wonderfully convenient to use its balm to assuage the pain and suffering that will inevitably follow serious reform. For such a combination, leadership both lofty and cunning is required. Major tax bills don't happen spontaneously. Congress is not a good initiator. It needs White House leadership. The odds on impossible dreams are never very good. Stalemate is much more likely. But dreams are what candidates run on. ■

In short, the debate between the pro-cut and anti-cut forces is settled for 2000 and probably for 2001, but the tide may turn after the first year of the new presidency—unless Democrats control both houses of Congress and the presidency.

Broken P

BY TOM LOVELESS AND DIANE RAVITCH

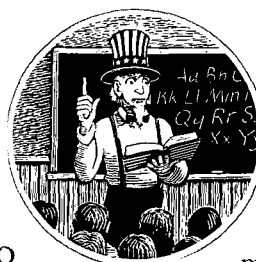
Education has emerged as one of the major issues in the 2000 presidential campaign. Candidates in both political parties sometimes seem to be in a bidding war to see who can devise the most new government programs. If there is a problem, goes the current wisdom, there must be a federal program to fix it. In their eagerness to appeal to voters, however, candidates are paying too little heed to the traditional federal role in education and the noticeable deficiencies of existing federal programs.

Federal government responsibilities in education have always been limited. The word “education” does not even appear in the U.S. Constitution. States and local school districts have always made the day-to-day decisions about

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instruction, teachers, textbooks, and the like. For most of the nation’s history, Washington confined itself to collecting data on school systems and disseminating information on the progress of education. Until 1965, when the Elementary and Secondary Education Act was passed, federal support for K–12 education was minimal. Today the federal government foots only about 7 percent of the nation’s K–12 education bill, and its share has never exceeded 10 percent.

The small slice of federal funding for education goes mostly to “categorical”



programs. The two largest serve poor (Title I) and handicapped (special education) students. The vast majority of American children

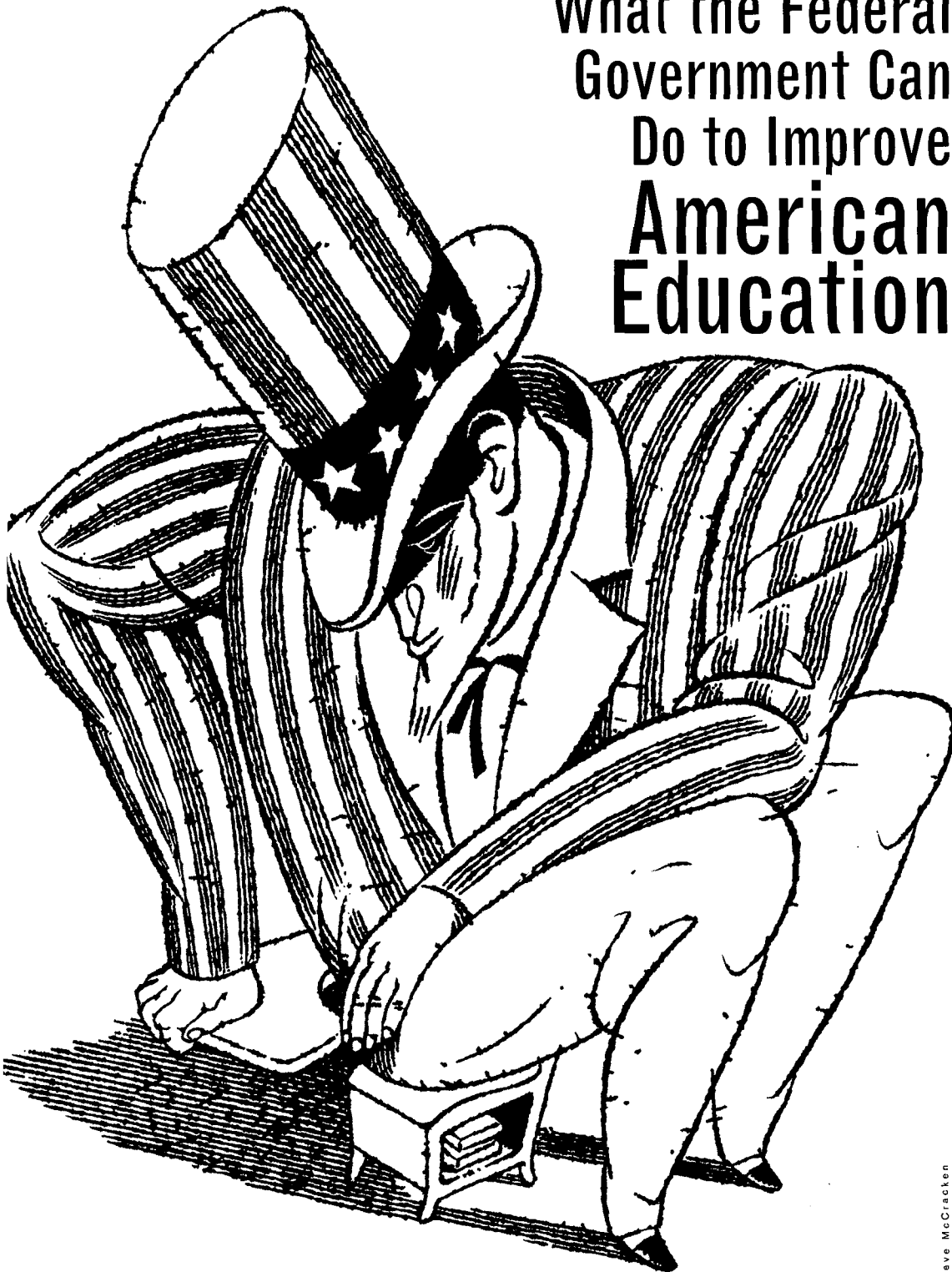
do not qualify for these or any other categorical program. For most students in most schools, only a penny or two of each education dollar can be traced back to Washington.

The most significant limit on federal influence arises from the sheer distance between Washington and the classroom. Federal programs typically travel first to the 50 state departments of education, which send them to local school districts, then to administrators at school sites, and finally, perhaps, to classroom teachers. At each stop, money is drained off to support a bureaucracy. Regulations are tweaked and molded to fit local priorities. On reaching the classroom, federal policy bears as much resemblance to its original form as a bird to a dinosaur, its evolutionary ancestor.

Candidates for office—whether running for president or for Congress—should recognize these realities. The current political climate, however, makes it difficult for politicians to acknowledge Washington’s limited role. Education, they know from opinion polls, is the public’s number one concern. In

romises

What the Federal Government Can Do to Improve American Education



recent years, Democrats and Republicans alike have supported dramatically extending the federal reach into schools. Placing more technology in classrooms, establishing school disciplinary codes, deciding how reading will be taught, recruiting new teachers and determining their qualifications, launching after-school programs, selecting exemplary math textbooks—these are just a few areas that were once the sole responsibility of state and local school officials but that now seem to be regarded as the proper subject of federal action.

An Appropriate Federal Role

The public's desire to improve public schools, though laudable, does not justify expanding the federal government's role in education. There is scant evidence that existing federal programs are accomplishing their goals; indeed, most evaluations of the major federal categorical programs suggest that they are failing to make a dent in the problems they were designed to solve. Even Head Start, probably the most popular federal initiative, has been unable to close the large gaps in achievement between poor children and their advantaged peers. Yet Congress has been consistently unwilling to overhaul or discontinue any education program, regardless of its lack of effectiveness. Every federal program can mobilize a devoted constituency on its behalf, and even the smallest programs have kept their federal funds flowing.

Steve McCracken

Here is a suggestion for the candidates: fix existing federal education programs before telling school boards, principals, teachers, and parents how to run local schools. There is no reason to believe that the president or Congress is well-suited to decide who should teach, what should be taught, or how schools should be organized. Nor do we know of any evidence that the U.S. Department of Education is in a better position to direct local schools than the people who work in them and send their children to learn there. And, frankly, taking on vast new responsibilities before fulfilling existing obligations is indefensible for any government at any level.

Before launching bold education initiatives, the federal government should follow a simple rule: improve what it does now before attempting anything new. Even then, Washington should never impose new programs on local authorities without clear evidence that the proposed intervention will improve children's education.

The two most important federal categorical programs—special education and Title I—need to be overhauled. Both could be changed by the president and Congress in ways that would help the children who are their intended beneficiaries.

Special Education

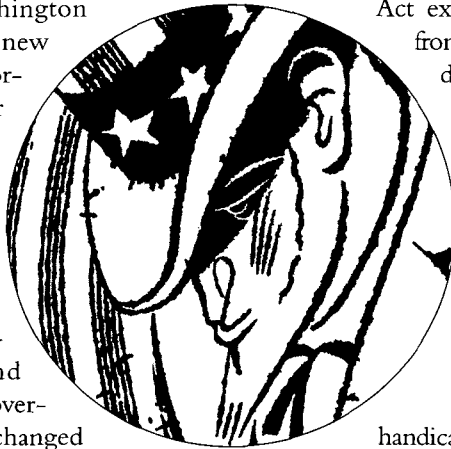
Special education serves 5.2 million students at a cost of about \$43 billion a year. The Education for All Handicapped Children Act, passed in 1975, established the right of all handicapped children to receive “a free and appropriate education which emphasizes special education and related services designed to meet their unique needs.” In addition to creating a host of new legal rights, the legislation mandated specific procedures for placing students in special education programs, including designing individual educational plans for each student. The act also declared Congress's intent eventually to fund 40 percent of the

costs of special education services beyond the regular school program. But Washington has never come close to that share. It now contributes some \$5.2 billion, about 12 percent of special education's national total—and \$12 billion short of the promised 40 percent. The rest comes out of regular state and local education revenues. In a 1997 study of nine representative school districts, Richard Rothstein of the Economic Policy Institute reported that special education spending rose from 3.6 percent of school budgets in 1967 to 19 percent in 1996.

Special education costs are likely to escalate even further. The legal rights supporting special education continue to multiply, mainly through court rulings. To cite one example, the Individuals with Disabilities Education Act exempts medical care from the services school districts must provide

special education is also driving costs skyward. A little more than half of all special education students are classified LD, or learning disabled. This category of disability includes students with legitimate learning problems, but it also serves as a catch-all for youth struggling in regular school programs. Special education serves 21.1 percent of students in Boston and 19.7 percent in Indianapolis. A 1994 *New York Times* report noted that thousands of students in New York City were mislabeled as LD, with each costing \$19,202 to educate, compared with \$6,394 for students not in special education. Later that year, the city's board of education reported that schools with the highest rates of violence also had the highest share of special education students. Critics charged that special education had become a “dumping ground” for youngsters with severe behavior problems.

The question is whether problems



There is no reason or Congress teach, what schools should

handicapped students. But it does require districts to provide the “related services” students need to attend and to benefit from school. In 1999, the Supreme Court blurred the line between medical care and these related services in a case involving a 16-year-old student who is paralyzed from the waist down. When attending school, the boy requires constant, one-on-one care, with a nurse monitoring a ventilator, catheterizing urine, and suctioning the boy's tracheotomy. The local school district paid for a full-time educational aide for the boy, but refused to cover the nursing expense, claiming it was medical treatment as defined by IDEA. The court ruled that the nursing care fell under the category of “related services” and ordered the district to pay.

Placing too many slow learners into

with the regular education system, rather than children's disabilities, are driving placements in special education. Alice Parker, California's director of special education, estimates that as many as 250,000 of the state's special education students are designated as learning disabled because of reading difficulties stemming from poor instruction. “They have not been taught how to read,” Parker declared in the *Los Angeles Times*. G. Reid Lyon of the National Institute for Child Health and Development summarizes the tragedy succinctly: “Learning disabilities have become a sociological sponge to wipe up the spills of general education.”

Whether children benefit from special education is unknown. A 1999 study found no significant achievement differences between LD children in special education and those in regular class-

rooms. And according to statistics from the Department of Education, only 4 percent of students diagnosed with learning disabilities in 1994 returned to regular classrooms.

Title I

Title I, the biggest federal education program for grades K–12, costs about \$8.4 billion a year. Passed in 1965, it provides extra funds to help educate poor children. The money goes first to state education departments, which distribute it to school districts, which give it to schools with the highest concentration of poor students. Since 1965, more than \$100 billion has been spent on Title I. Although poor children have made some progress in the interval, it is difficult to attribute their progress to Title I funding. For one thing, Title I is a funding stream, not a program with a specific educational strategy. Districts and schools use the funding in a variety

Other studies suggest that Title I—whatever its effects on poor children—has continued to fund the expansion of state bureaucracies. Paul T. Hill discovered that federal programs supplied 41 percent of operating revenues for state agencies in 1993, contributing to what he called the “colonization” of state departments of education. Speaking of state departments of education, Hill concluded, “Many have no real agenda beyond keeping federal funds flowing.”

The formula that dictates where Title I funds go has presented several problems. In the 1990s, Congress recognized that Title I monies were going to most districts in the country, including many well-off districts, instead of being targeted to the poorest schools. But efforts to concentrate Title I funding have produced some perverse effects. In many urban districts, a public school must be at least 60 percent poor to qualify for federal Title I aid. Thus, if a

First, fix existing federal programs. Make sure that programs like Title I and special education provide better schooling for the children they serve. An essential step is for Congress to require methodologically sound evaluations to determine what is working and what is without beneficial effects for students.

Second, bring mandates in line with the revenues required to meet them. In special education, this means either cutting back on the legislative mandate or boosting spending to fulfill its requirements. Imagine what would happen if the federal government were to assume the full costs for special education (and enact reasonable controls so that districts and states avoid over-labeling to get federal dollars). Districts would be free to use \$37 billion of their own money to reduce class size, hire new teachers, train their staff, add technology, or do whatever was most needed in their own schools.

to believe that the president well-suited to decide who should should be taught, or how be organized.

of ways, and it is commingled with state and local programs and funds.

Unfortunately, little has been learned since 1965 about the conditions under which poor children make the most progress. Research has been inconsistent, sporadic, and unable to identify the most effective classroom strategies. Studies have not used rigorous scientific methods, such as the random assignment of students to treatment and control groups. Notwithstanding the limits of this research, two findings about the Title I program stand out. On achievement tests, poor children who do not receive Title I services score about the same as those who do. Also troubling, a large share of Title I funding is spent before it reaches the classroom. Michael Kirst of Stanford University found that federal funds financed 70 percent of the state education agency in Texas in 1972.

poor student's family moves to a slightly better neighborhood and the student enrolls in the local public school where “only” half the children are poor, the school will not be a Title I school and will receive no federal aid at all. Unlike the federal funding of higher education, where federal dollars follow the student, Title I dollars reward concentrated economic segregation.

Principles of Reform

In 1965, the federal government made a commitment to poor children that it would help them receive a quality education in American schools. In 1975, it made a similar commitment to handicapped youngsters. But neither promise has been kept. As the 2000 campaign heats up, we suggest the following principles to guide candidates who genuinely want to improve the role of the federal government in education.

Third, send federal education money to schools by the most direct route possible. Federal initiatives are designed to help students, not to pump up bureaucracies.

Fourth, resist the temptation to regulate curriculum materials, classroom instruction, the training and hiring of teachers, school staffing patterns, school disciplinary codes, and the myriad other decisions about schooling that can best be made by local decisionmakers.

Using these four simple principles, a new administration and a new Congress have an historic opportunity to carve out a productive federal role in education. If they seize it—if they make existing federal programs work as intended and remove burdensome rules and regulations associated with them—they can unleash the energies of local schools on behalf of the children they serve. ■



The Centenarian

BY HENRY J. AARON

More than one million centenarians will be living in the United States by the middle of this century. Not until 1960 were there more than one million Americans over age 85. These statistics measure a remarkable transformation in the prospects of growing old in America. At the dawn of the 20th century, the average newborn American could expect to live 47 years. Barely half of 20-year-old men lived to age 65. Nearly half of women who reached age 65 were widows. As the 21st century opens, men who are 65 years old can expect to live another 16 years, women of that age another 20. Improved standards of living and public and private health care services have made long lives routine.

Not only has long life become normal, financial security—once available only to the very rich—is now the lot of most Americans. “Security” is not the same as “wealth.” While poverty among elderly couples is lower than among any other age group, most of the retired elderly live on modest incomes, and a sobering 25 percent of elderly widows and widowers even now live in poverty. But their primary source of income—Social Security—is rock solid. Until the middle of the 20th century, retirement was simply unaffordable. Most men worked until they died or suffered terminal illness. Rising

incomes, a maturing Social Security system, and private pensions for many have brought retirement within the financial reach of nearly all and made it financially secure for many.

Over the next half-century, with the aging of the legions born after the Depression and World War II, the population of the very old will soar. Life expectancies of 65-year-olds are projected to rise another 2 years by 2050—and plausible medical breakthroughs could boost that forecast. While population aging is certain, less clear is whether the growing ranks of the very old will continue to live out their lives in relative economic security or will face increased economic risk.

How Heavy a Burden?

Some commentators warn that the swelling ranks of the elderly will impose heavy burdens on a barely growing labor force. This fear is unfounded. To be sure, the ratio of retirees to active workers is almost certain to rise. But the share of Americans under age 65 who are not working and whom workers must also support is projected to fall. Workers will have proportionately fewer nonworkers to support than they did during the 1950s and 1960s. In those years, although dependency ratios rose to historic highs, far above any the United States will see in the 21st century, living standards soared. Overall, the number of mouths each worker has to feed is projected to rise only about 6 percent over the next 40 years and little thereafter.

Supporting a growing population of the elderly will pose no aggregate problem for the nation, if output per worker grows even at the modest annual rate of 0.9 percent assumed

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Boom

Providing for Retirement in a Long-Lived America

by the Social Security actuaries. At that rate, output per worker will rise 46 percent by 2040, dwarfing the demographic burden. With even modest growth, the nation can both support retirees and improve living standards for the nonelderly.

But being able to do it and doing it are not the same thing. Whether the elderly will have the resources to enjoy extended retirements in reasonable financial security is not a matter of affordability for the nation. It is a matter of prudent personal planning and wise social policy.



Saving for Retirement

Early in the last century, people worked until they died. The arithmetic of retirement saving was depressingly simple—people needed only enough saving to pay the undertaker. As life expectancy and incomes increased, additional saving became necessary if people were to live in the manner to which they were accustomed before retirement. Unfortunately, individual saving has always been difficult. Few workers have voluntarily saved much. When incomes were low, retirement saving was unaffordable. As incomes rose, saving was less attractive than the enticements of current consumption.

Two public policies have facilitated retirement saving. The first is Social Security. It now provides \$300 billion in benefits each year to more than 37 million retirees and to their spouses or survivors. The second, paradoxically, is the personal income tax. It defers tax on employers' deposits in qualified pension programs until workers actually receive the pension. This provision makes it far more attractive to have one's employer save for one's retirement than to do it oneself. Individuals also receive tax breaks if they deposit funds in special accounts, such as Individual Retirement Accounts, 401(k) plans, and Keogh plans. But people need not actually save to receive these tax breaks, as they can transfer previous savings or bor-

row to finance deposits into favored accounts.

These tax breaks are relatively new. Until World War II large personal exemptions shielded all but a few from the income tax and most who paid the tax faced low rates. In this environment, deferral could do little to encourage pensions. But the higher rates and lower personal exemptions after World War II converted deferral of pension contributions into a powerful incentive for employers to set up qualified pension plans.

Consider 30-year-old workers whose investments yield 6 percent annually and who face a 28 percent marginal tax rate. If their employers set up pension plans that earn the same rate of return, the workers' pensions will be 75 percent larger after all taxes have been paid than if the employers pay out the same contribution to the workers who do the saving themselves. Furthermore, many pension plans create powerful financial incentives for workers to retire after particular ages. Pensions under many plans stop growing after the worker reaches a certain age or works a certain number of years. The worker's wage for continued work drops from the stated wage to the difference between the wage and the pension. In combination, these two public policies, together with sustained economic growth and prosperity, have made possible progressively earlier retirement ages. As of 1996, half of all men were out of the labor force by age 62.

Whether these trends will continue is in doubt. Social Security has matured and now faces a projected long-term deficit. Pension coverage has not increased in years. What is not in doubt is that if life expectancies continue to increase—and if retirement ages do not—workers will have to save a larger share of what they earn themselves or the cost of public and private pensions must increase if workers are to live in financial comfort during retirement.

How Much to Save?

Few people appreciate just how much they need to save to maintain their living standards after retirement. Consider, for example, people who start working at age 20, whose earnings grow annually 2 percentage points more than inflation each year, who retire at age 62, and who die at age 80. (Such workers closely approximate the average prevailing today.) If they earn 3 percent more than inflation on tax-sheltered savings—about the average yield on government bonds—they have to save 20.3 percent of earnings every year from the time they start working until they retire to maintain their preretirement income. A decision to retire two years earlier would boost the required saving rate to 22.6 percent. If life expectancy increases to age 90 or to 100, the required rates for age 60 retirees rise to 27.8 percent and 31.2 percent, respectively.

All these examples assume that people start saving as soon as they start working and save at a constant rate throughout their careers. In fact, most people save little in their 20s and 30s. Many go into debt. They begin saving in earnest for retirement only when they move into their 40s or even their 50s. At these ages, children are grown, intimations of mortality may be too insistent to ignore, and careers may have reached a plateau. People who wait this long to begin saving for retirement are likely to find the goal unattainable if they must rely only on their own saving. Workers planning to retire at age 60 who expect to live to age 80 but who wait to age 30 to start saving must save 28.9 percent of their incomes to meet their targets—and those who wait to age 40, 35.4 percent. Clearly, retirement saving should start early.

Three considerations modify these required saving rates. One reduces them: most people do not feel they need as much income during retirement as they earned late in their careers. The recommended target is about 60–70 percent of preretirement income. But two other realities increase required saving. First, many people enter the labor force with debt—college loans, for example—and most incur some debt soon thereafter—to buy and furnish their first house or apartment, for example. At age 30, many workers are paying off these debts and are not yet able to begin saving for retirement. Second, many elderly people fear that they will outlive their assets. People can avoid this risk by purchasing annuities from insurance companies. But individual annuities are expensive. Loading charges—off-the-top fees—average about 20 percent of the cost of an annuity. About half of these fees covers administrative costs, and half covers the added costs that companies incur because annuity buyers tend to live longer than average—so-called “adverse selection.” Furthermore, private

annuities typically do not contain inflation protection. It is hard to get away from a simple fact—preparing for retirement in one’s early 60s takes more saving than most people now do voluntarily and, unless human psychology undergoes dramatic change, more than they are likely to do in the future.

Public Saving Incentives

This is where public policy comes in. Social Security and company pension plans are based on the principle that mandatory saving is necessary to help people overcome the temptations of gratification from immediate consumption. Social Security and traditional private pension plans also incorporate mandatory annuitization, which assures an income stream that lasts until the worker dies. Social Security automatically provides spouses who have not earned benefits in their own rights a benefit equal to at least half of their spouses’ benefits, and after the primary earner has died the survivor receives the full benefit. Private plans now also typically offer at least partial benefits to widows, under the so-called “joint-and-survivor” option. Social Security also provides full protection against inflation by adjusting benefits for changes in the consumer price index.

Today Social Security is running large annual surpluses well in excess of \$100 billion and rising. Current revenues and accumulated reserves are sufficient to pay benefits under the current benefit formula for the next 30 years. But Social Security has a projected long-run deficit. If no changes are made in earmarked taxes or the assets in which Social Security reserves are invested, revenues in about 35 years will be sufficient to pay about 70 percent of currently legislated benefits. Relatively small tax increases or benefit cuts, if made soon, could restore long-term financial balance. But some people advocate significant structural changes in the system, as well as measures to close the deficit.

In 1998, President Clinton initiated a national discussion on how best to close that deficit. In 1999, he proposed to allocate general revenues to Social Security and to permit the trustees of the Social Security trust fund to invest a small part of that trust fund in private securities. Various members of Congress introduced a wide variety of proposals, many of which would allocate general revenues or a part of current payroll taxes to newly created individual accounts. The plans differed in the range of choices that individuals would have over investments and the terms under which they could withdraw funds.



Public opinion polls indicate deep divisions and an absence of consensus. The debate remains unresolved, but will loom large in the 2000 presidential campaign. The prospects for early action to close the projected deficits are uncertain, in large part because the system is now running enormous surpluses that are projected to continue for many years. But early action is highly desirable because adjustments must be phased in gradually to spare retirees and older workers abrupt changes to which they would find it difficult to accommodate.

Modifications in private pensions are making it increasingly important to maintain an assured core benefit such as that provided by Social Security. Private pension plans are moving from traditional "defined-benefit" plans to "defined-contribution" plans. Under defined-benefit plans, companies establish reserves to support pensions keyed to earnings and years of service. If investment returns on the reserves are lower than expected, companies bear the risk. Under defined-contribution plans, companies make fixed contributions, which workers sometimes may supplement. Variations in investment returns lead to changes in reserve accumulation—and in the pension amounts that retirees receive—thus shifting to employees the risk that companies once bore.

Against this background, the reliable defined-benefit Social



Security plan is increasingly important. Shifting Social Security to a defined-contribution plan would expose workers to financial market risks on most or all of their retirement income. Of course, Social Security is also exposed to risks. If projected revenues fall short of projected benefit costs, Congress enacts tax increases or benefit cuts for current and prospective beneficiaries. But this risk is broadly diffused among workers and current and future beneficiaries. In contrast, the financial market risks under defined-contribution plans fall exclusively on individual workers and retirees who are usually poorly equipped to handle them. Whatever the outcome of the debate, some form of mandatory saving will be necessary to provide a base of income to support the aged and disabled.

Apart from preserving Social Security as a defined-benefit plan, the major issue in public policy is whether to try to reverse the trend to earlier retirement. By retiring at age 68 instead of age 60, workers can cut the proportion of income they have to save to maintain their preretirement income until age 80 from 22.6 percent to 13.6 percent. People may indeed choose longer working lives. After all, as longevity has increased, health has improved. Simultaneously, the physical demands of many lines of work have decreased. Furthermore, a projected slowdown in growth of the labor force may increase employer interest in retaining older workers. These forces will probably make workers increasingly amenable to



working longer. Public policy might abet these tendencies, for example by raising the age of initial entitlement to Social Security benefits from the current age of 62 or by using tax regulations to discourage provisions in private pension plans that encourage workers to retire at particular ages.

But reversing the trend toward early retirement will entail difficult trade-offs. Many of the two-thirds of American workers who claim benefits before age 65, the so-called "normal retirement age," suffer from declining health or impairments well short of disability but sufficient to make work onerous. Furthermore, a major factor in the move to early retirement has been the increase in incomes. Wealthier people buy more of many of the good things in life, including leisure, part of which can come at

the end of life. Unless public policy is designed to shift incentives, workers are likely to continue the century-long trend to spending an increasing share of their lives in retirement.

Prudence, Private and Public

In the end, the United States need have little economic difficulty accommodating the "centenarian" boom and the associated population aging. The keys are adequate saving by individuals and prudent fiscal policy by government. Adequate individual saving requires some form of compulsion to help people overcome the natural human frailty that leads them to save too little when young to cope with seemingly remote contingencies. Sound fiscal policy requires that government balance its own budget so that private voluntary saving and pension saving in the private and public sector are available for investment at home or abroad. The emergence of a geriatric society will doubtless produce myriad social and personal problems. But it need not pose economic problems for the nation or for individuals provided that we make plans now to deal with it. ■



A New Civil Rights Agenda

BY JOYCE A. LADNER

Few issues in American life have been as intransigent as race. In every century, race has presented the nation its greatest paradoxes, challenges, and opportunities, calling into question time and again the principle of equality on which it was founded. During the 1950s and 1960s, the golden era of civil rights activism, the civil rights movement mobilized the nation's collective consciousness around issues of racial equity. The U.S. Supreme Court officially ended legal school segregation in *Brown v. Board of Education of Topeka, Kansas* in 1954. Congress passed the landmark Civil Rights Act of 1964 and the Voting Rights Act of 1965. Black political participation increased dramatically. In 1964, only 5 blacks served in the U.S. Congress. By 1998, the number had grown to 39.

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Bettmann/Corbis



AP/Wide World Photos

Central High School, Little Rock, Arkansas, 1957 (left) and 1997 (above)

But the victories of the movement, however decisive they seemed at the time, did not bring the long-term parity that activists and policymakers hoped for. Bread-and-butter issues such as unemployment, substandard housing, inferior education, unsafe streets, escalating child poverty, and homelessness supplanted the right to vote, eat at a lunch counter, and attend desegregated schools. As new issues arose, appearing and intensifying in ways that fell beyond the scope of the legislation and social reforms, the old civil rights model—one that relied mostly on judicial and protest remedies—seemed less and less effective in dealing with them.

Contributions of the Movement

The civil rights movement made lasting contributions to the nation. Above all, it helped eliminate the legal apartheid that had dogged the United States since its earliest days. It also created a national expectation that individuals and groups had the right to petition their government to right legal wrongs affecting them. In its wake there developed a broad base of constituent interest groups—women, the elderly, children's rights advocates, the handicapped, homosexuals, environmentalists—that emphasize the rights of affected parties to be a critical part of the decisions affecting their interests.

Ironically, the emergence of those constituent groups, each with its own divergent interests, made it much more difficult to sustain the old civil rights coalition of members of labor, the faith communities, and sympathetic whites and blacks to advance the new issues of post-civil rights America. Indeed, the dominant ethos of the sixties, racial integration and equality, has given way to an implicit but insidious assumption by many whites and blacks today that voluntary racial isolation and segregation are acceptable even among those whose fundamental interests are similar.



The American citizenry is also divided over whether the unfinished civil rights agenda has its origins in race or social class, and even whether government reforms such as affirmative action should address the lingering problems. The compelling evidence of African-American progress found in the burgeoning middle class helps explain why opponents of a race-based agenda feel the way they do. Meanwhile poverty in a large and intractable black underclass reaches deep into inner cities and rural communities nationwide and decisively constricts the life chances for affected parties, particularly children.

The Unfinished Civil Rights Agenda

Two issues remain on the civil rights agenda. The first is addressing the persistence of racial disparities. The second is redefining the agenda to fit a vastly changing American demographic profile.

Black-white inequality persists in income, education, health, housing, technology access, and safe communities. The national media increasingly report on racial profiling in what has come to be euphemistically referred to as "driving while black," in the denial of equal access to rent or purchase housing, and in disparities in arrests and sentencing in the criminal justice system.

Many still view government intervention as the most effective means to provide the leadership to eliminate the disparities. But others argue that the responsibility for solving these problems rests neither entirely with government, nor with the voluntary, private, sector, but with a coalition of government, civil society, business, and individual initiatives. They see an invigorated role for faith-based groups, particularly those serving African Americans, and also a stronger role for industry in hiring and training the most indigent and least prepared.

The second issue on the civil rights agenda involves the rapid growth in the immigrant population since 1965. Individuals of Hispanic origin now outnumber African Americans. By 2050, the

majority-minority population paradigm on which race and ethnic relations have traditionally rested in this society may be a thing of the past. As a nation, we have already moved away from the traditional white-black model of race relations to one that reflects the nation's broad diversity—in race, ethnicity, gender, and lifestyle.

The increase in interracial and interethnic marriages is already changing the historical perceptions of what it is to be a member of the “white” or “black” race. High-profile individuals like golf professional Tiger Woods represent a generation of Americans who are redefining race by embracing their ethnic and racial diversity and its broader societal implications.

It is conceivable that at mid-century, Americans will view race in fluid rather than fixed and precise terms, not unlike the way Brazilians see their multiracial population.

The Need for New Models

One of the shortcomings of the civil rights movement of the 1950s and 1960s was its failure to envision the need for a fluid model of action to address new civil rights issues in the years ahead. And still the search goes on. Indeed, the issue today is how to develop flexible remedies to black-white disparity, the nation's changing racial and ethnic diversity, and white poverty. One way is to rebuild the black voluntary sector that was for a time supplanted by the black electorate. Jesse Jackson's Rainbow Coalition was a step in the direction of pitching a huge tent under whose shelter new and old minorities and the poor could find common issues and agendas. Martin Luther King's proposed Poor People's campaign in 1967 also recognized that a civil rights coalition based entirely on race would not be sufficient to address the problem of white poverty.

A new generation of civil rights leaders now focuses its work on eliminating social and economic disparities, particularly for the indigent. Using some of the sixties strategies for community organizing around advocacy and service delivery, these leaders are bringing technical proficiency to such complex problems as economic development, improvement of schools, and the organization of community development corporations whose

missions range from building housing to creating mini-industries.

The most effective of these leaders are people like Bob Moses, a key voting rights activist in the South in the sixties, who now teaches math literacy to prepare poor children for the technology-driven job market; Eugene Rivers, a founder of Boston's 10-Point Coalition to disarm gangs and rehabilitate young lives; Hattie Dorsey, whose Atlanta Neighborhood Development Partnership helps rebuild decaying neighborhoods; and Robert Woodson, head of the National Neighborhood Enterprise Center, who brokered a truce among the District of Columbia's most violent gangs and placed its members in paying jobs.

Most of the successful leaders in the post-civil rights movement operate in the nonprofit sector, primarily in community-based groups. They know how to reinvent themselves and their strategies by developing cross-cultural alliances and partnerships based on technical competence as much as on common goals; build public and private resource bases; and navigate the bureaucratic governmental maze for funding. And they are actively training a new generation of young leaders to succeed them. The skills they bring to the job include expertise in planning, finance, technology, and government. They know how to design programs that are appropriate for the complex, multi-layered issues inherent in their work and how to garner the resources to rebuild decaying infrastructures and overhaul human services to make them more efficient and less costly, even while pushing constituents to practice self-sufficiency.

In conclusion, two questions stand out. First, can diverse cultural communities (such as Puerto Ricans in New York City, Central Americans or Ethiopians in Washington, D.C., Asians and Latinos in Los Angeles) and nonprofit groups in civil society coalesce with elected officials and with one another to address the post-civil rights agenda? Second, as they face increased costs along with demands for both enhanced services and fiscal accountability, how can cities (including economically and institutionally recovering venues of reinvention like Washington, D.C., and Philadelphia) support all their citizens? ■



Facing Up to Racial Disparity

BY
CHRISTOPHER
H. FOREMAN, JR.



AP/Wide World Photos



trating given today's turbocharged economy, the near-disappearance of legal discrimination, and continuing effort by a large network of activists and professionals within and beyond government. But remaining disparities are likely reducible only through an uncertain blend of educational and economic advancement and a thoughtful political strategy. Above all, it will take time.

One must expect some disparities since precise equality of social outcomes remains a chimera. The raw material necessary to thrive in a heavily information-based economy that rewards entrepreneurship, advanced training, and access to capital and supportive social networks cannot be equally distributed, even among Euro-American groups. And since African Americans are over-represented among the low-income segment of the population, we should naturally perceive a racially tinged inequality.

Chatter: Necessary But Insufficient

Before any problem is successfully addressed it must be recognized and deemed worth confronting. One might think that initiating and sustaining a public discourse on racial disparities would be the easy part but it is actually a formidable challenge. The most obvious aspect is the sheer number of disparities between whites and nonwhites that one can plausibly highlight.

As implied above, the list of problems can paralyze by its very length.

Moreover, even facing up to (much less attacking) some problems can prompt discomfort. Daniel Patrick Moynihan learned this in the mid-1960s when he raised the issue of black family structure. And many have probably forgotten how much harder it was a generation ago to engage in an honest discussion of such matters as teen pregnancy or the gap in cognitive skills between black and white children. More recently, black churches have shied away from confronting the horrific toll that the HIV-AIDS epidemic has been taking on black America since

the 1980s. Even though most new infections and a large majority of pediatric AIDS cases crop up among African Americans (with AIDS remaining the leading cause of death among black 25- to 44- year-olds of both sexes), squeamishness about its modes of transmission has always impeded discussion. The *Washington Blade*, a gay weekly newspaper in the nation's capital, observed recently that "new infections among black gay and bisexual men are largely responsible for driving the AIDS epidemic" among African Americans. That stark fact has, at least until recently, chilled involvement by the clergy.

The Conundrum of Health

But getting everyone talking is just the beginning. Leadership requires followers, and for many social problems an elite-driven discourse, no matter how intense, is of little use unless it connects effectively with the capacities and incentives facing ordinary people. That, surely, is the core challenge posed by the spotlight that journalists, foundations, and policymakers now regularly shine on disparities in health status between minority populations and other Americans. In a February 1998 radio address President Clinton declared that "no matter what the reason, racial and ethnic disparities in health are unacceptable in a country that values equality and equal opportunity for all." Although eschewing a rhetorical flourish that would instantly have recalled failed efforts against poverty and cancer, Clinton nevertheless can be said to have launched a "war" (undeclared and low-key, to be sure) on a handful of health disparities identified by the Department of Health and Human Services pursuant to the presidential initiative on race.

But reducing such conditions as HIV infection, infant mortality, hypertension, and diabetes among African Americans to the rates at which whites are afflicted will require more than presidential attention and government funding. Perhaps millions of persons must be regularly monitored and sustain at least modest changes in habit and lifestyle, with some adhering zealously to daily drug regimens. These

Racial and ethnic disparities are pervasive, and especially distressing in the case of African Americans. On a host of indicators (health, wealth, test scores, college attendance, civic participation, and Internet access, to name a few) African Americans regularly come up short. While nearly everyone acknowledges vast improvement, especially for the middle class, stubborn gaps and barriers remain, all the more frus-

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changes must occur among people facing associated and sometimes culturally sanctioned conditions (such as tobacco addiction, excess weight, unwholesome diets, and inadequate health care access) to which they are long habituated. Lives that are disorganized, stressful, or sedentary may resist even determined intervention. A recent case, recounted in the *Washington Post*, of Ohio Medicaid recipients who continued using hospital emergency rooms despite being provided a health maintenance option is suggestive. Moreover, recent evidence indicates that some physicians may treat their black patients differently from their white ones. Such provider behavior, if genuinely pervasive, may resist change as well.

Moreover, neither a guaranteed right of access nor individual compliance speaks to a fundamental underlying challenge. Universal health care coverage remains a worthy social goal, but its achievement may not augur success on the disparity front. Both Britain and Canada show signs of continuing disparities in access and outcomes linked to socioeconomic status. “Wealthier is healthier” is perhaps the single most widely replicated finding in the health field.

The Paradox of Prevention

One recurring systemic difficulty is that recognizing an equity problem and mobilizing to address it tend to lag behind the creation of the processes and policies where the problem arises. Sometimes a consciously inequitable policy choice has prevailed, as when the Congress that created the Social Security program in 1935 declined to authorize benefits for farm and domestic workers, an action with greatly disproportionate adverse consequences for African Americans. When the landmark environmental legislation of the 1970s was enacted, concerns regarding what is now called “environmental justice” had occurred to few community advocates or policymakers; effective advocacy began penetrating the federal government only in the 1990s. Even more recently, the introduction of personal computers and the subsequent Internet

explosion have been a great boon to society as a whole. But the implications of a “digital divide” separating minority and low-income persons from the rest of American society would have seemed too ephemeral and distant a decade ago, even though the disparity we see today was entirely predictable. How could one have planned to address it? Perhaps more important, who would have paid any attention to anyone trying to? But by last year the issue was making headlines as the target of yet another federal initiative. The paradox is that one wants ideally to *prevent* problems that become apparent, and tangible enough to appear worth solving, only after time has allowed them to take root sufficiently to generate concern.

Technology and Its Uses

Technology, a primary engine of economic growth and employment, is a sure vehicle for both opportunity and disparity, increasingly so in the new millennium. Every product has both a price (that may place it beyond the means of some consumers) and a profile of skills and values necessary to its effective use. Hence there must always arise disparity in benefits from technology. As with television, the telephone, and other developments, declining prices and increased ease of use should have a democratizing impact. But that effect will not be completely egalitarian, no matter how cheap or simple the product, because people (and groups) differ in skills and preferences. Cable television is accessible to nearly everyone but it’s also a safe bet that the History Channel’s audience is demographically skewed. Someone with shaky reading skills is likely less comfortable with e-mail and web browsing than another person more verbally adept. And when the Census Bureau queried Internet “non-users” in 1998 regarding their reasons for abstaining, about a quarter of white and black respondents alike replied that they simply “don’t want it.” The share of white non-users citing cost concerns was 15.6 percent while the figure for African Americans was 22 percent. This

gap will probably narrow as prices decline, but it is worth remembering that even today 6 percent of American households overall (and 15 percent of African-American households) do not have telephone service.

Transracial Appeals and Nonracial Policies

If race remains America’s major piece of unfinished business, African Americans must chart new pathways toward its completion on favorable terms. During only two brief periods of American history (the years 1850–70 and the decade leading up to passage of the Voting Rights Act in 1965) have black interests commanded a compelling moral lever-

age over the national discourse. Such eras will not likely recur, even in a political environment of governmental budget surpluses.

Three strategic principles follow from these circumstances. First, the African-American community must become ever more engaged

by, and anchored within, the private sector. There lies wealth, from which flows both an enlarged collective voice and expanded personal choice. Second, in the political realm, as many have already observed, the African-American community must frame issues of importance to it in terms that facilitate building transracial coalitions. In part that means advocating multi-interest policies that have potentially disproportionate payoffs for blacks. An example would be enhanced efforts to educate and train America’s incarcerated population; that’s one of several obvious places to target the “digital divide.” A third and related need is an African-American leadership that identifies and analyzes the racial implications of nonracial policies, from free trade to consumer protection to suburban sprawl and beyond. It is imperative that we know whether efforts to control sprawl will expand or constrict housing and employment prospects among urban blacks. In short, both realism and farsightedness must characterize the continuing struggle for African-American uplift. ■

Recent evidence indicates that some physicians may treat their black patients differently from their white ones.



Beyond Sprawl

BY BRUCE KATZ AND AMY LIU

In the past few years, widespread frustration with sprawling development patterns has precipitated an explosion in metropolitan thinking and action across the United States. A new policy language—"smart growth," "livable communities," "metropolitanism," "sustainable development"—has emerged to describe efforts to curb sprawl, preserve open space, and balance growth and is now common not only among political, civic, and corporate leaders, but also among developers and others in the real estate industry.

Toward a Broader Metropolitan Agenda



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The involvement of governors and state legislatures in smart growth efforts has been particularly noteworthy. Since 1997, states have made progress on several fronts, including growth management, infrastructure policy, metropolitan governance, and land acquisition. Tennessee, for example, recently became the eleventh state to direct local governments in managing growth. Both New Jersey and Maryland channel transportation and other state spending back into older communities. Georgia created a regional transportation authority in Atlanta with sweeping powers over transportation and air quality. In 1998, New Jersey voters approved a \$1 billion, 10-year plan to conserve a million acres of open space.

The metropolitan reforms taking hold in state legislatures and elsewhere are ambitious and will alter some of the government policies that have spurred the decentralization of economic and residential life in America. But will they be enough to tame sprawl and help shape an alternative form of growth? The discussion to date has focused mainly on the negative consequences—the symptoms—of rapid growth: traffic congestion, overcrowded schools, diminishing open space. Rarely mentioned are other factors, such as school quality and the location of affordable housing, that influence where families choose to live and businesses choose to locate.

This raises an intriguing set of questions. What is the full range of forces that shape metropolitan growth? To what extent does today's metropolitan agenda address the major factors driving current growth patterns? What other issues do metropolitan areas (and the federal and state governments) need to address to grow smarter?

How Metropolitan America Grows:

The Greater Washington Example

To answer these questions, the Brookings Center on Urban and Metropolitan Policy is working with local scholars to examine growth patterns in the Atlanta, Chicago, Cleveland, Los Angeles, Philadelphia, Phoenix, Pittsburgh, and Washington, D.C., metropolitan areas. Early findings of our analysis of Greater Washington are particularly instructive.

Greater Washington spans two states, one federal district, and nine local jurisdictions. The area prospered in the 1990s and now boasts a booming high-technology sector. But some side effects have been unwelcome. The metropolitan region is the second most congested in the country, trailing only Los Angeles. Loudoun County (in Virginia) is the nation's third fastest growing county and expects to build 22 new schools in the next six years. The metropolitan area is losing 10,300 acres a year to development.

Congestion, school overcrowding, loss of open space—these are the elements usually associated with metropolitan growth. Yet the Greater Washington study found the causes and consequences of growth more complex than generally portrayed. The region is starkly divided by race, income, jobs, and opportunity. Economic and residential growth have been highly uneven, favoring one portion of the region over another. The eastern half of the region, particularly the District of Columbia and Prince George's County, Maryland,

bears the burden of poverty and social distress; the western half, notably the north and west of the central city, as well as Fairfax, Montgomery, and Loudoun counties, enjoys most of the fruits of prosperity.

The divisions in the region do not follow the traditional "city versus suburb" paradigm. Because the rough dividing line cuts through many counties and the central city itself, it is not simply a matter of strong suburbs surrounding a weak city, or even of strong outer suburbs ringing a weak urban and inner suburban core. The District of Columbia, for example, has within its borders both affluent neighborhoods richly endowed with jobs and the region's largest concentration of poor families and welfare recipients. Many suburban counties face the same economic and social divisions.

And the divide is growing. The population of Greater Washington grew from 3.8 million in 1990 to 4.3 million in 1998, with most growth occurring in the region's western counties. Fairfax and Loudoun counties in Virginia gained respectively 82,000 people (a 13.5 percent increase) and 58,000 people (a 67 percent increase). Montgomery County in Maryland gained 84,000 people (a 10 percent increase). The District of Columbia lost 87,000 residents (down 14 percent).

Increasingly the region's jobs are located not just outside the central city but beyond the traditional urbanized area as well. As of June 1998, the District had a quarter of the region's jobs—down from a third in 1990—while the suburbs outside the Capital Beltway had half of all regional jobs and two-thirds of all suburban jobs.

While jobs have moved westward, lower-income and minority families have tended to stay in the east. In 1996, for example, the District of Columbia and Prince George's County had 70 percent of the region's black population and 57 percent of the nonwhite population, but only 32 percent of the total population. In May 1999, 64 percent of the region's welfare recipients lived in the District, 15 percent in Prince George's County.

Because school populations tend to mirror those of their neighborhoods, most schools with large shares of students from poor families are in the east. Of the 75 public schools with more than three-quarters of their students eligible for subsidized lunches in 1996, all but three were in eastern D.C. Of the 53 public schools with roughly half to three-quarters of students eligible for subsidized lunches, 39 were in older suburban neighborhoods, including 20 in Prince George's County.

The Greater Washington study reveals a wealthy metropolitan area out of balance, struggling with the consequences of little growth on one side and extraordinary growth on the other. As Myron Orfield, David Rusk, and others have illustrated, divisive growth patterns repeat themselves throughout the country.

These out-of-balance growth patterns are inextricably linked. Poor schools in one jurisdiction push out families and lead to overcrowded schools in other places. A lack of affordable housing in thriving job centers leads to long commutes

on crowded freeways for a region's working families. Expensive housing—out of the reach of most households—in many close-in suburbs creates pressures to pave over and build on open space in outlying areas.

This analysis yields several conclusions about the policies that shape a region. First, the location of affordable housing is crucial to metropolitan growth patterns. Low-income families in Greater Washington live in the east because they cannot afford housing elsewhere. Subsidized housing is confined mostly to distressed inner-city and older suburban neighborhoods, and wealthier suburbs limit affordable housing within their borders. The lack of affordable housing is also a problem for middle-class families. The dearth of housing for middle-income families, especially in centrally located areas on the west side, drives these families to the region's edge and fuels development of the outer suburbs.

Second, the composition of schools affects metropolitan growth. Because of the strong correlation between a school's share of low-income students and its students' performance on standardized tests—the higher the share of low-income students, the lower the test scores—families with the means to do so leave poorer neighborhoods in search of more solidly middle-class schools. Their departure further weakens declining communities and creates more pressures on rapidly developing outer suburbs.



Federal and state spending programs, tax expenditures, and regulatory and administrative policies shape metropolitan growth patterns. Most highway funds in Greater Washington have been invested in the growing western suburbs, hastening decentralization without resolving the traffic problems faced by older communities. Although substantial resources have gone to expanding the area's Metrorail system, the benefits from this investment have been blunted by the rapidly decentralizing economy. Low-income workers without cars face a bewildering array of bus schedules and rail transfers to get from their homes in the east to the job-rich west, making these commutes unsustainable for many families.

Federal programs can also exacerbate the concentration of the poor. The housing voucher program, which now subsidizes rents for thousands of low-income families in Greater Washington, is administered by 10 separate bureaucracies. Although the housing market is fundamentally metropolitan in nature, such governmental fragmentation makes it hard for low-income recipients to understand, let alone exercise choice in, that market.

Where Do We Go from Here?

The current smart growth discussion must move beyond questions of traffic congestion and the loss of open space to

take into account the full array of forces that drive growth in some parts of a region and not in others. To curb sprawl and balance growth, regions must wrestle, first of all, with the problem of affordable housing. The challenge is particularly vexing because of persistent racial and ethnic discrimination in the marketplace. But public programs and policies, federal, state, and local, have also impeded housing mobility and choice.

The first step for metropolitan areas is to produce and preserve affordable housing in suburban communities. Since the mid-1970s, for example, Maryland's Montgomery County has required new housing developments to make 15 percent of their units affordable to moderate-income families. This effort has allowed many communities to enjoy a reasonable level of economic integration without any apparent negative effect on housing values or the county's economic growth.

Governance of the federal housing voucher program must shift to the metropolitan level. Competitions should be held to determine what kind of entity (whether public, for-profit, nonprofit, or a combination thereof) can do what it takes to make this program work, from counseling voucher recipients about housing choices, to recruiting new landlords to increase the supply of housing, to working with suburban churches and civic groups to place recipients who want to move.

Second, metropolitan areas must make education a high regional priority. To some extent, making all schools in a region competitive and attractive depends on success in the housing arena. Creating stable, mixed-income neighborhoods will lead to a more diverse mix of students in many elementary and secondary schools. Urban school reformers would be wise to make those linkages explicit as they struggle to reform systems tasked with educating an overwhelming proportion of a region's poor children.

Recent efforts by some state legislatures and by the judiciary to ensure funding equity between school jurisdictions also have enormous implications for metropolitan areas, where large fiscal disparities exist between central cities, declining older suburbs, and tax-wealthy developing suburbs.

The private and nonprofit sectors can also contribute. Corporations and philanthropic foundations can go beyond their laudable investments in technology, tutoring, and after-school programs in individual urban schools to make collective regional investments in reforms to turn around urban school systems.

Third, transportation strategies need rethinking. Although some states and regions are becoming aware of the spatial distribution (and economic and environmental impact) of highway spending, transportation reforms have not gone far enough. States and metropolitan areas need to connect their

evolving plans for infrastructure investment with the discordant realities of land use patterns. The pattern of low-density settlement and the emergence of an “exit ramp” economy make the private automobile the only realistic form of transportation for most people. Keeping residential, commercial, office, and industrial land uses separate has all but dictated congestion. Only by strengthening the central city and remaking the suburbs—by creating greater residential density in some areas, by clustering different forms of development to make transit and other transportation alternatives feasible—can we move beyond sprawl. In Atlanta, for example, BellSouth will soon consolidate 75 dispersed offices, with 13,000 workers, into three centers within the beltway that are easily accessible by mass transit for employees in both the fast-growing north and the less affluent south.

Transportation strategies must meet the real needs of firms and workers in rapidly decentralizing economies. In Washington, D.C., as in other metropolitan areas, express bus service from labor markets in central cities to job centers in suburbs is rare. Washington, D.C., and some states are using demonstrations to test reverse-commute routes, but the challenge is to design mainstream transportation strategies that provide reliable and timely access to jobs for low-income workers.

Chicago has one successful reverse-commute bus system. Since 1986, the PACE system has been running buses from



downtown Chicago to suburban office parks, malls, and other work sites. It makes about 25,000 trips a day on more than 1,000 buses and vans and is augmented by private firms such as Suburban Job Link, which provides central city workers reliable transportation to (and job training for) firms near O'Hare Airport.

Finally, regional economic development strategies can leverage local and regional assets and improve the economic competitiveness of the entire region and its parts. The challenges of little growth in some communities have been seen by leaders in other jurisdictions as specifically urban or local rather than regional issues, even though conditions in distressed communities powerfully affect growth in metropolitan areas. A metropolitan economic development strategy is the natural outgrowth of metropolitan transportation activities. It can promote reinvestment in the central city and older suburbs and strengthen ties among all jurisdictions in the region. These options complement, not supplant, more conventional reinvestment strategies pursued by local governments.

Metropolitan economic development could take many forms. For instance, metropolitan areas could pool tax resources to pay for specific projects, particularly those that strengthen the economic position of the central city. Pittsburgh and Denver have used regional tax revenues to fund projects, like sports stadiums, cultural institutions, and zoos,

that can anchor a downtown revitalization strategy and leverage other urban reinvestment efforts.

Or metropolitan areas could design tax-sharing schemes to reduce the fiscal inequities between separate municipalities. Since the 1970s, Minnesota has maintained tax base sharing for the Twin Cities region, dedicating 40 percent of the net gain in the area's commercial and industrial development to a metropolitan pool and distributing funds to communities based on their comparative commercial and industrial values. Such redistribution is not only socially and politically healthy for a region; it also discourages wasteful public subsidies to lure businesses from cities to suburbs and vice versa.

States and metropolitan areas could also promote broader regional partnerships. In Seattle, for example, government, business, and civic leaders come together to discuss regional trade challenges, explore strategic options, and visit leading regions at home and abroad. In a globalizing economy, such partnerships help reinforce the corporate stake in particular places and regions.

As a fourth option, regional leaders could also establish joint business improvement districts (“BIDs”) for commercial corridors that cross jurisdictional lines. Many cities have created BIDs downtown and in other defined market areas. The BIDs give local merchants a forum to design and implement collective strategies on infrastructure repair, community polic-

ing, workforce development, and regulatory issues. Sometimes local jurisdictions grant special tax and other powers to such entities to leverage private-sector engagement and direction.

A Broader Agenda

Sprawl is a simple term but a complex phenomenon. If American metropolitan areas are to experience a new kind of growth, leaders and citizens alike need to develop policy solutions that reflect the many forces driving development patterns.

The metropolitan agenda as currently defined is a big step in the right direction. It will alter some government policies, such as the lack of sensible land use restrictions and uneven highway spending, that have subsidized and facilitated sprawl.

Yet the current agenda is too limited in scope and application. It ignores the other side of the metropolitan equation: pervasive patterns of class and racial separation, of social and economic exclusion, of failing schools and economic disinvestment. It ignores the government policies that limit affordable housing in the suburbs, help concentrate poverty in the cities, and impede access to opportunity.

Sprawl, in the end, is not just about too much growth. It is also about too little growth in many parts of metropolitan America. Understanding that linkage and bridging that divide is the key to resolving some of our major social and economic challenges. ■

THE "Globalization" CHALLENGE

The U.S. Role in Shaping World Trade and Investment

BY
ROBERT E. LITAN



Michael Gibbs



As the United States enters the 21st century, it stands unchallenged as the world's economic leader, a remarkable turnaround from the 1980s when many Americans had doubts about U.S. "competitiveness." Productivity growth—the engine of improvement in average living standards—has rebounded from a 25-year slump of a little more than 1 percent a year to roughly 2.5 percent since 1995, a gain few had predicted.

Economic engagement with the rest of the world has played a key part in the U.S. economic revival. Our relatively

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open borders, which permit most foreign goods to come in with a zero or low tariff, have helped keep inflation in check, allowing the Federal Reserve to let the good times roll without hiking up interest rates as quickly as it might otherwise have done.

Indeed, the influx of funds from abroad during the Asian financial crisis kept interest rates low and thereby encouraged a continued boom in investment and consumption, which more than offset any decline in American exports to Asia. Even so, during the 1990s, exports accounted for almost a quarter of the growth of output (though just 12 percent of U.S. gross domestic product at the end of the decade).

Yet as the new century dawns, America's increasing economic interdependence with the rest of the world, known loosely as "globalization," has come under attack. Much of the

criticism is aimed at two international institutions that the United States helped create and lead: the International Monetary Fund, launched after World War II to provide emergency loans to countries with temporary balance-of-payments problems, and the World Trade Organization, created in 1995 during the last round of world trade negotiations, primarily to help settle trade disputes among countries.

The attacks on both institutions are varied and often inconsistent. But they clearly have taken their toll. For all practical purposes, the IMF is not likely to have its resources augmented any time soon by Congress (and thus by other national governments). Meanwhile, the failure of the WTO meetings in Seattle last December to produce even a roadmap for future trade negotiations—coupled with the protests that soiled the proceedings—has thrown a wrench into plans to reduce remaining barriers to world trade and investment.

For better or worse, it is now up to the United States, as it has been since World War II, to help shape the future of both organizations and arguably the course of the global economy. A broad consensus appears to exist here and elsewhere that governments should strive to improve the stability of the world economy and to advance living standards. But the consensus breaks down over how to do so. As the United States prepares to pick a new president and a new Congress, citizens and policymakers should be asking how best to promote stability and growth in the years ahead.

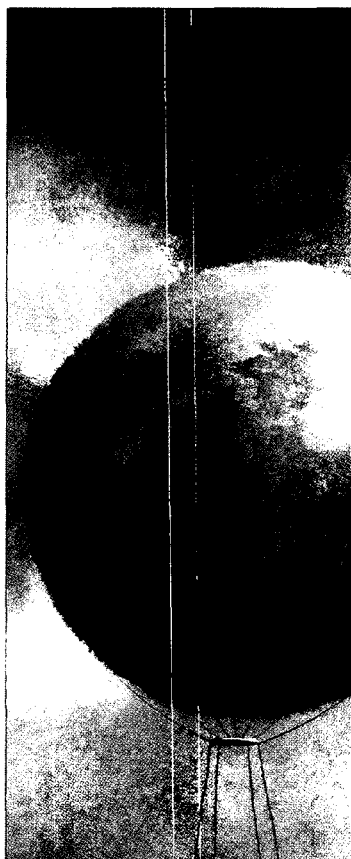
Unilateralism

A variety of interests and prominent individuals, many of whom otherwise agree on little else, are pushing the United States to adopt a new economic unilateralism, one that at its extremes would abolish the IMF, the WTO, or both.

Some critics of the IMF, for example, argue that because the system of fixed exchange rates that the Fund was created primarily to support has collapsed, so should the Fund. Indeed, some assert that the Fund's role as emergency lender to all countries has encouraged imprudent behavior by governments, borrowers, and lenders. Abolishing the IMF, they argue, would make all parties behave more carefully, with fewer financial crises as a result.

In fact, the supposed "safety net" of IMF lending is far more porous than critics may acknowledge. IMF loans have not bailed out foreign holders of bonds or equities in emerging markets. Furthermore, governments in those countries have had to submit to increasingly onerous conditions (themselves the targets of other criticisms), making it hard to argue that the Fund's continued presence will encourage future recklessness.

The critics do have a point about one thing: IMF funds often find their way, quite legitimately, into troubled banks, which use them to shelter large depositors (often foreign



banks) from losses. But abolishing the Fund to address this problem runs enormous risks. During the 1930s the Federal Reserve effectively did not act as a U.S. lender-of-last-resort, allowing a recession to turn into a great depression. World leaders are right to avoid such a risk on a global scale.

U.S. opponents of the WTO claim that subjecting U.S. regulations and standards to an international trade-oriented dispute resolution process risks watering down or even eliminating them. But WTO dispute resolution panels decide whether a country's rules *unfairly discriminate* against foreign goods, not whether the rules are unsound. And even when the WTO finds the rules to be discriminatory, it cannot change them—it can only allow other countries to retaliate (in a proportionate fashion). Nonetheless, since 1995 the process generally has worked as the United States expected: most cases in which our country has been involved have been decided or settled in our favor, expanding access for our exports.

In the end, we cannot avoid

One Worlders

At the other extreme from the unilateralists are the "one worlders," who want to give the WTO and the IMF even more authority and responsibility, primarily in the service of raising environmental and labor standards abroad. Indeed, under recently enacted legislation, the IMF must now report on how well its borrowers are advancing labor and environmental standards. Furthermore, President Clinton suggested during the Seattle meeting that the WTO authorize the use of trade sanctions against countries not conforming to minimum world "core" labor standards (prohibiting child and forced labor, discrimination, and restrictions against unions).

But would such well-intentioned initiatives succeed? The history of developed countries suggests that standards will rise as average incomes grow and citizens demand improved labor and environmental protections. Because trade is a well-documented means for countries to improve their living standards, it would be counterproductive to deny emergency financing or market access to countries that may not adhere to some minimum standards.

But, the one worlders will object, what is wrong with trying to hurry things along with some "sticks," such as sanctions? The answer is that many people and businesses in developing countries already operate outside the law. Passing and enforcing more laws that add first-world protections will slow their economic development—and thus improvements in

environmental and labor conditions—by driving more business into the underground economy, where even third-world standards are not enforced.

The Sensible Middle

A middle course between the extremes promises both greater economic stability and advances in living standards. But it will require reform of global institutions, coupled with policies at home to ease anxieties about globalization.

For starters, both the IMF and the WTO need to be more tolerant of dissent. To its credit, the IMF has made its operations much more open since the Asian financial crisis. Now it should reach out to nongovernmental organizations to hear their concerns and explain how its policies are (or are not) consistent with their aims. The WTO, meanwhile, should welcome briefs from nongovernmental parties. If Seattle teaches anything, it is that secrecy breeds mistrust.

Substantively, much more progress has been made toward shoring up the international “financial architecture” than is commonly recognized. It is now widely accepted that countries with weak financial systems should be able to restrict short-term borrowings in foreign currency (such as those that helped lay the foundations for the Asian crisis). It is also generally recognized that countries should not maintain pegged, but adjustable, exchange rates because doing so can invite recurrent speculative attacks on curren-

Getting the WTO back on track will require compromise on all sides. To get U.S. priorities—freer trade in agriculture and services, no barriers to e-commerce—on the agenda, we must entertain creative suggestions from other countries. For example, we could accommodate Europe’s political difficulties in committing to a total elimination of farm subsidies by discussing an accelerated phaseout schedule that doesn’t yet have zero at the end. Meanwhile, we should work with Europeans and others to allow labeling of goods and services to solve such thorny disputes as EU opposition to the sale of genetically modified foods.

The United States should also offer to modify antidumping policy, which hurts both developing countries and American consumers. One approach would ease antidumping rules unless petitioners at home can demonstrate that foreign exporters are taking advantage of cartels or protected markets in their own countries to sell products cheaper abroad.

With such concessions on the table, the United States would be in a stronger position to ask other countries—separately and outside the WTO process—to help create or strengthen organizations to address labor and environmental standards. The WTO might recognize the legitimacy of multinational environmental agreements, even those that may ban imports of harmful products (as long as harmful domestic goods are given similar treatment). The next WTO round can also advance environmental interests by removing subsidies that promote excessive use of natural resources.

At home U.S. leaders need to do a far better job of helping Americans see the benefits of globalization. One way to do that is to emphasize the consumer gains from trade. The office of the Special Trade Representative, for example, estimates that existing WTO agreements add roughly \$3,000 to the purchasing power of the average four-person household every year. Liberalized trade also promotes economic growth and liberty abroad, both in our national interest.

Finally, more must be done to address Americans’ continuing anxieties about globalization and, indeed, economic change more broadly. Two possibilities: lifetime loan accounts for workers to use for retraining and wage insurance to compensate for some portion of incomes lost when individuals are laid off. Such measures should be available generally, not just for those who have been displaced because of trade.

In the end, we cannot avoid the challenge of globalization. Meeting it through unilateralism or one worldism is likely both to destabilize the world economy and slow improvements in living standards at home and abroad. Instead we should embrace the opportunities that globalization affords, ease the anxieties it generates, and reform and strengthen the international economic institutions created to promote both global economic stability and growth. ■

the challenge of globalization.

cies and encourage excessive borrowing by firms that erroneously believe rates to be fixed.

As for the IMF’s tendency to encourage too much borrowing and lending—by parties who expect to be bailed out by IMF emergency lending—in the past two years the Fund has refused to lend to both Russia and Ecuador because their policies were not sound. These gutsy decisions have changed market expectations about the automaticity of emergency lending. The central issue that now must be resolved is whether to establish more formal criteria for access to and pricing of IMF loans—to encourage countries to pursue sound policies and to put lenders on notice—or leave the current “constructive ambiguity” in place.

The agenda for the WTO, meanwhile, is simple: pick up the pieces from Seattle and move forward. Otherwise countries will be tempted to strike more regional and, possibly, discriminatory arrangements. At worst, without a strong commitment to multilateral trade liberalization, a future economic downturn could sorely tempt nations to raise import barriers, ignoring the WTO as a toothless tiger.



Five Not-So



The Debates on American Foreign Policy

BY RICHARD N. HAASS

American foreign policy discussion today is not so much a single debate as debates. At least five principal debates are taking place—or at least should be. How they are resolved will go a long way toward determining both what takes the place of containment as a means of organizing international relations and what the role of the United States in the post-Cold War world will be.

The five essential sets of questions involve the proper priorities for foreign policy; the extent to which the United States should enlist others in pursuing these priorities; how the instruments of foreign policy should be used; what resources will be required and how they should be distributed; and how policy itself should be made.

The range of American foreign policy priorities is considerable. Potential emphases include encouraging democracy and markets; alleviating humanitarian distress; promoting U.S. exports; maintaining American primacy; encouraging restraint in inter-state relations; and avoiding foreign policy entanglements. Although a foreign policy can reflect more than one of these directions, priorities must be established, because trade-offs and opportunity costs are often unavoidable.

At its core the second question is how much the United States should try to do largely or entirely on its own—unilaterally—and how much in cooperation with others. The choice is a great deal more complicated than that, however, as the multilateral option in fact subsumes multiple approaches, including using the United Nations and other international

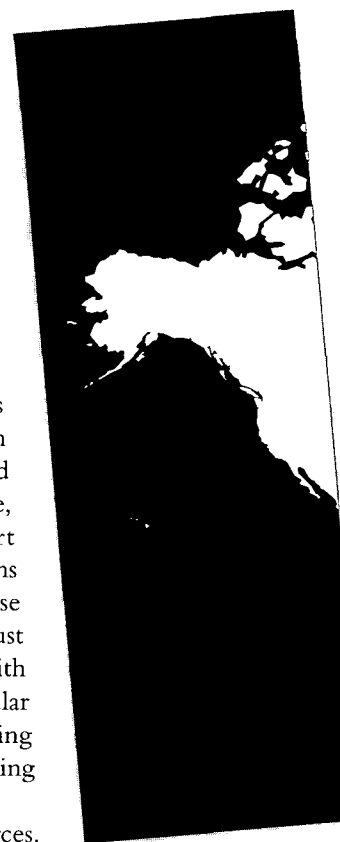
institutions, alliances and other regional organizations, and coalitions of those able and willing to act.

The third set of questions involves the instruments of foreign policy, which include public and private diplomacy, military force, sanctions, incentives, and covert action. In every instance, questions arise about whether and how to use particular tools. Policymakers must constantly assess whether acting with a particular instrument in a particular fashion makes more sense than using others in other ways—or than doing nothing at all.

The fourth debate is over resources. Elsewhere in these pages Michael O'Hanlon highlights the choices facing the United States in the realm of defense. Similar assessments could be written about the dollars devoted to intelligence, foreign assistance, and diplomacy. In every case, it is necessary to address not simply how much should be spent but how it is spent.

The fifth and last debate involves how foreign policy is made. Are procedures and institutions that for the most part developed in a very different context—a world divided by Cold War and fundamentally less global than our own—still adequate for the challenges facing the United States today? If not, what changes should be made by the executive branch, Congress, or both?

All five debates are important. At the same time, they are often obscured by specific foreign policy issues. “Unpack” the



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Easy Pieces



debate over China policy and you will see that at the core is the question of foreign policy priorities. Much the same can be said of

debates surrounding Kosovo and other humanitarian interventions. Likewise, controversy surrounding the use of economic sanctions reflects disagreements over both the wisdom of unilateral action and the relative value of particular tools.

Of the five sets of questions, the most important are the first two, which reflect the purposes of the United States and its basic approach to the world. The latter three debates—matters more of instrumentality, implementation, and process—while critical to the success of policy, are less fundamental. For that reason this essay will emphasize the debates over priorities and approaches.

To What End?

The question of priorities is another way of asking what the United States should do with its primacy. Although a world of democratic, market-oriented states would obviously be desirable, bringing it about is likely beyond our capacity. Moreover,

other issues—stemming the proliferation of weapons of mass destruction, avoiding the outbreak of war, protecting core economic stakes—are simply more important. Interests need to take precedence over concerns. Much the same holds for a humanitarian emphasis. However important, it too can be a luxury that can impair the ability to protect necessities.

A foreign policy based on promoting exports also has major shortcomings. Because trade and investment flows require stability, an export-based policy can all too easily be overwhelmed by political and military instability. Just as important, a focus on exports is likely to lead to policies that make little economic sense—because an export-based policy tends to increase the role of governments in trade—and can imperil the rest of relationships as trade frictions overwhelm all else.

Nor is a policy that seeks to maintain American primacy as an end in itself likely to succeed. The United States cannot dictate the course of other societies, preventing them in the process from becoming more powerful and assertive. What is more, changes taking place within American society are likely to make consensus as to the ideal means and ends of policy more difficult to achieve. This, too, is likely to weaken the position of the United States relative to others over time.

What might be described as the opposite alternative—minimalism or neo-isolationism—is arguably more doable but less desirable. Although doing less abroad would be less costly in the near term, over time it could prove terribly expensive. The United States cannot insulate itself in a world that is ever more global. Missiles, people, germs, terrorists, ideas, drugs, funds, and goods all show little respect for state boundaries. Moreover, an absence of American activism will create vacuums that will be filled by forces that in some cases will be hostile to ourselves, creating the likelihood of conflict down the road.

A final alternative, one that often comes under the banner of realism, emphasizes order among rather than within states. While rightly focusing on the greatest threats to peace and prosperity, realism has little to offer when it comes to dealing with internal sources of instability or to human problems. Indeed, its very narrowness makes it unattractive to many Americans who will only support a foreign policy with a purpose that transcends balancing power and maintaining peace devoid of justice.

Which orientation makes the most sense? Realism should be at the core, and toward that end the United States should work to bring about a world where military force is used only sparingly to resolve disputes between nations, where stocks of weapons of mass destruction are reduced, and where trade is conducted according to rules rather than results. These are the areas where the most important U.S. interests are engaged and where it is possible to design and implement policies to protect them. At the same time, the United States should promote democracy and markets to the extent feasible and do what it can to alleviate humanitarian suffering when it is truly awful, when it is possible to do some good at a reasonable cost and without jeopardizing vital interests, and when others are willing to share the burden.

Getting from Here to There

Beyond the question of the ends is the problem of approach. What is the best way to realize the preferred aims of American foreign policy?

One option would be to go it alone. Unilateralism has the advantage of minimizing the need for compromise and maximizing speed and ease of acting. But it is also expensive (in both dollars and people) and impractical. Few undertakings can be carried out by the United States alone. Major military operations require overflight rights, access to bases, and contributions of troops and equipment. Unilateral sanctions can easily be circumvented. A world trading system by definition requires the cooperation of others. Supplier clubs designed to curb the proliferation of weapons of mass destruction require near universal membership.

A second approach would lean heavily on international institutions. This notion is attractive in principle, as effective global organizations could help bring about a more prosperous, stable world at less cost to the United States. But institutions require a strong consensus to operate effectively, and in most arenas of international life such consensus is missing. In particular, major powers today do not agree on the

rules of world trade, the status of Taiwan, what to do about Saddam Hussein, the desirable level of missile defenses, or the legality of intervening with military force when a government is unable or unwilling to protect its own people. This is not an argument against building organizations where and when agreement emerges—a WTO that is inclusive in membership and comprehensive in what it regulates is surely to be desired—only a call for modesty in the absence of convergence.

A third approach to American foreign policy is one that is multilateral but less formal or universal. Alliances, such as NATO, are one manifestation, although such groupings are rare and likely to become even less common in a world of few fixed adversaries. Much more common are informal coalitions of parties able and willing to work together on behalf of a common purpose—be it to rescue the Mexican economy, contain Saddam Hussein, or enter East Timor. Such groupings are not ideal—they are invariably ad hoc and reactive and lack the legitimacy of more formal regional or UN undertakings—but they are consistent with a world where the willingness of governments to cooperate varies from crisis to crisis and situation to situation, where great power consensus is unreliable, and where U.S. resources, however great, are still limited.

Making Foreign Policy Work

What this all adds up to is an American foreign policy that emphasizes relations between states more than conditions within them (on the grounds that one can have order without justice but not vice versa) and informal coalitions to promote multilateral action. In most instances, such coalitions should be headed by the United States, if only because it alone possesses adequate military, economic, and political power.

But power is not to be confused with influence. It is not simply that the United States lacks the resources to carry out a unilateral foreign policy, it lacks the capacity to compel others to follow its lead. Any attempt to do so—to assert hegemony—is bound to fail as it will stimulate resistance, something that will make the costs of acting in the world greater and the benefits smaller.

In short, leadership requires followership. Abroad, this means that the United States must be willing to consult with others as to the shape of post-Cold War international society. If negotiations were the hallmark of Cold War diplomacy, consultations are likely to characterize U.S. foreign policy in this era.

Leadership overseas also requires leadership at home. The ability of the United States to be effective requires that the American people and Congress be willing to recognize the national interest over special interests, to make the necessary resources available, and to allow them to be used. Right now, a decade after the end of the Cold War, the absence of consensus abroad as to what should constitute international order is matched by an absence of consensus at home as to what should constitute American foreign policy. Asking the candidates to articulate their vision of both seems only right given all that is at stake. ■

The U.S. Defense Budget

Bob Krist

Choices for the Next President

BY
MICHAEL
O'HANLON



When the next president and the next Congress begin to shape future defense policies, they will face serious budgetary constraints despite the growing federal budget surplus. Washington will spend slightly more than \$280 billion on defense during fiscal year 2000. But according to current plans, it will have to spend considerably more in the years ahead. Even if the Pentagon gets its "fair share" of the federal budget surplus, it may come up short of funds—mostly because it intends, partly for sound reasons and partly for less wise ones, to greatly increase spending on new weaponry.

Michael O'Hanlon is a senior fellow in the Brookings Foreign Policy Studies program and the author, most recently, of Technological Change and the Future of Warfare (Brookings, 2000).

Under current plans, procurement spending would probably have to grow from around \$50 billion a year today to roughly \$80 billion annually over the next few years—and then stay there indefinitely. With the post-Cold War defense draw-down nearly complete, funding this huge increase for hardware is no mean feat, since it cannot easily be done by cutting spending on military personnel or operations. Under defense plans crafted by the Clinton-Gore administration—and criticized by many Republicans as inadequate to the nation's security needs—the Pentagon is implicitly assuming an annual real defense budget of at least \$300 billion and probably \$310 billion next decade (in constant 2000 dollars). Even more will be needed unless excessive bases are closed and other reforms made; more would also be required if new programs were added to those already on the books or if costs like those for military health care continue to escalate.



Al Gore appears prepared to provide somewhat greater funding for defense, as does John McCain. But neither Gore nor McCain appears likely to provide enough additional money to permit this huge increase in procurement. Bill Bradley and George W. Bush do not appear likely to increase spending on defense at all. Bradley's big health care and poverty initiatives would likely leave little of the non-Social Security surplus for other programs. Bush's tax cut plan would eliminate most or all of that "on-budget" surplus, and although he has proposed targeted increases in several areas of defense spending, press reports quoting top campaign aides suggest that he is also likely to make cuts in response to budgetary pressures. Under either Bradley or Bush, the Pentagon would do well to keep its budget at current real levels.

In short, the defense debate over the coming election season will take place against the backdrop of a Pentagon plan implying annual defense budgets of at least \$300 billion, while spending proposed by the major presidential candidates is insufficient to fund that plan. Moreover, some candidates have proposed initiatives with real merit in areas such as military research and development and missile defense that could exacerbate the resource shortfall. The central challenge in future defense planning is solving this budgetary problem. The two central matters of contention are U.S. overseas military commitments and weapons modernization.

Overseas Commitments

Unlike most nations, the United States does not spend most of its military budget defending its own territory. Convinced by two world wars that an ounce of prevention is worth a pound of cure, the United States tries to protect its overseas interests and allies. The U.S. active-duty military force of roughly 1.4 million is organized principally around the so-called two-war framework, which envisions the (remote but not implausible) possibility of simultaneous major conflicts in both Korea and the Persian Gulf. To help deter these and other conflicts, as well as to reassure and train with friends and allies, Washington bases or deploys some 260,000 U.S. troops overseas at a time. Roughly 45 percent are in Europe, 37 percent in the Western Pacific, 11 percent in the Middle East, and most of the rest in Latin America. Some observers, including candidates Bradley and Bush, have concluded that reducing these commitments may save money as well as offer other benefits to the American military.

That may be tougher than it sounds. U.S. interests in Persian Gulf oil and in maintaining stability as well as impeding the proliferation of weapons of mass destruction make it hard to contemplate American military disengagement there or in Northeast Asia. Keeping a force of 55,000 in Germany may seem nonessential, but it is also inexpensive (assuming those forces would be retained in the military even if based at home), because Berlin helps foot the small additional bill

for keeping U.S. troops on its own soil. U.S. commitments in the Balkans may strike some as a distraction from the military's main missions, but most Americans wisely appear to support such peacekeeping missions—which are not that expensive anyway. During the 1990s, the United States spent an average of about \$3 billion a year on peace operations, or 1 percent of the defense budget. Today fewer than 20,000 U.S. forces are deployed in the Balkans (out of a total of 75,000 international peacekeepers there).

Still, there may be ways to save money—or at least reduce operational strain from high deployment rates—here and there. For example, U.S. participation in Bosnian peacekeeping, which has settled into a relatively routine mission, might be further curtailed or turned over to American allies. The no-fly zone over Iraq, which clearly does little to weaken Saddam's grip on his own country, might be ended, particularly if the Iraqi dictator agrees to allow meaningful arms inspections to resume. To deter Iraqi moves

Despite all the talk

against its neighbors, the United States would still want to keep fighter aircraft in the Persian Gulf and Turkey, but fewer could suffice. Finally, most of the nearly 20,000 Marines on Okinawa, less critical militarily than the U.S. naval and air capabilities in Japan or than U.S. forces in Korea, could be sent home and replaced with larger stocks of equipment and munitions, to speed a possible deployment to Korea or elsewhere in the region in a crisis.

Larger savings in personnel and in operating accounts could come only from changes in the two-war strategy, in the way the Navy operates abroad, and in U.S. nuclear posture. A revised two-war strategy that recognized improvements in South Korea's armed forces and the weakening of the North Korean and Iraqi threats could pare U.S. forces modestly and save \$5–\$10 billion a year. Homeporting Navy ships overseas—or leaving ships in a given theater for a year

or two at a time, rotating crews by air-lift—could save \$3–\$5 billion a year. Unilaterally reducing U.S. nuclear forces to START II levels of 3,500 strategic warheads and maintaining those levels inexpensively could also save \$3–\$5 billion a year. None of these ideas is radical, but all would be hard to push through the military services or Congress. In other words, they are just the kinds of things that should be considered by a new, serious administration.

Modernizing the Military

The other large Pentagon dollar decisions lie in modernizing the military.

As noted, current Pentagon plans would drive up procurement spending roughly \$30 billion a year. Even if the Pentagon made every single change in its overseas commitments, two-war strategy, and nuclear posture specified above, the real defense budget would probably still need to grow as a result. For a president who is unwilling to make all those changes, who does not wish to increase

exceed expectations. And Bradley and Bush almost certainly cannot afford it at the defense spending levels they appear to anticipate.

Another approach, popular within much of the defense policy community and reportedly with Bradley and Bush as well, would be to recognize the absence of a major strategic competitor to the United States and to reduce the premium placed on modernizing major weapons systems. Instead, the Pentagon would emphasize R&D, military experimentation, and targeted modernization that maximizes use of modern computers, electronics, sensors, and munitions. Among major defense technologies, these are not only making the fastest progress, but also are relatively inexpensive, and can make existing large weapons like fighters, destroyers, and tanks much more effective.

This agenda would itself not be cheap, because aging weaponry would still have to be replaced. But replacing F-16s with F-16s rather than joint strike

Facing Budget Realities

The continually improving fiscal and budget picture in the United States has alleviated, but not eliminated, the resource constraints on the Pentagon. Even given the government's increased surplus projections, the Pentagon is still planning to keep too large a force and too expensive a weapons shopping list. The non-Social Security surplus is not that big and will probably not allow real defense spending to increase very much, if at all.

But while the mismatch between budgetary requirements and budgetary resources is considerable, it is not huge. The problem is not insurmountable. The Pentagon has the means to scale back its plans to make them more affordable. Ideas that have been under serious scrutiny and development in the defense policy community for years could eliminate or greatly reduce the resource shortfall without requiring a major change in America's global role or weakening its armed forces. The task, however, will be difficult. And it will require the next pres-

Reducing U.S. overseas commitments, the largest dollar decisions lie in modernizing the military.

the defense budget, or who wants to devote more defense dollars to new military missions such as homeland defense, rethinking weapon modernization may be in order.

Some increase in procurement is essential, as weapons built mostly in the 1970s and 1980s will wear out en bloc in coming years. But much of the projected spending increase springs from plans to replace old weapons with more expensive and modern equipment—such as the Air Force's F-22 fighter aircraft, the Marines' V-22 tilt-rotor transport aircraft, advanced submarines and destroyers for the Navy, two new types of attack helicopters for the Army, a joint strike fighter for three of the services, and various defenses against ballistic missiles.

McCain and Gore hope to afford this agenda, given their relatively generous planned defense budgets. But they may not be able, if the costs of new weapons

fighters, transport helicopters with similar helicopters rather than V-22s, and so on, could cut at least \$10 billion off the annual price of modernizing the U.S. military.

ident to have good working relationships with both the armed services and Congress. Such things will be possible in the post-Clinton, post-Gingrich era, but not without considerable effort. ■



U.S. Department of Defense

After the Revolutions, Reality



Voters Accept the Limits of Reform

BY JONATHAN RAUCH

In the race for the 2000 presidential nominations, the weather changed, subtly but significantly. In every presidential contest since Jimmy Carter's in 1976, hostility to a purportedly blundering, intrusive, and duplicitous federal government has figured prominently. And then, in the current race, the wind shifted. Neither of the Democrats, Al Gore or Bill Bradley, bothered with even token government-bashing. As for the Republicans, some of them fulminated against cultural decline, but none denounced overbearing bureaucrats or Washington's ham-handed ineptitude. "Government must be carefully limited," said George W. Bush, "but strong and active." John McCain sounded anti-establishment, anti-Washington themes, but with a difference: his targets were special interests and political money, not government itself. Indeed, he sounded more like a good-government liberal than an anti-government conservative. Instead of running against Washington, the candidates ran against each other.

Jonathan Rauch is a senior writer for National Journal and the author, most recently, of Government's End: Why Washington Stopped Working (PublicAffairs Books, 2000).

Why? Perhaps the public's disillusionment with government has given way to contentment? When people were asked in a September 1999 CBS News poll how often they trusted the government in Washington to "do what is right" (a classic polling question that has been asked regularly since the late 1950s), 38 percent said "just about always" or "most of the time." Those numbers represent something of a shoring-up of confidence from the extremely low levels—in the high 20s—that predominated in the early 1990s.

The numbers do not, however, denote satisfaction. Trust in government remains at half the levels of the early 1960s and roughly comparable to those of the Reagan years. Asked by CBS whether the federal government usually acts "in the best interests of people like yourself" or "in the best interests of some other group of people," two-thirds of Republicans and Democrats alike chose the latter. Asked whether the political system needs "only minor changes," "fundamental changes," or "has so much wrong with it that we need to completely rebuild it," fully 80 percent—again, of both parties—chose fundamental change or "completely rebuild." The public remains deeply disillusioned with Washington.

Why, then, has discontent with government all but evaporated politically? In a word: accommodation. The voters, having grudgingly learned to accept the natural limits on government's ability to change society, are perhaps now beginning the second half of the job, which is learning to accept the natural limits on society's ability to change government.

The period beginning with President Reagan's election in 1980 and ending, probably, with the ejection of House

In eight years, Reagan managed to eliminate only four major federal programs and not many more minor ones.

Speaker Newt Gingrich in 1998 amounted to the most concentrated assault on Washington's establishment since the reforms of the Progressives nearly a century before. Reagan (more precisely, David Stockman, Reagan's first budget director) attempted to sharply reduce the scope of domestic government, an effort that no president had made before. The 1990s brought Bill Clinton's grandiose health care reform effort and then, reversing field, Gingrich's attempt to cut and kill hundreds of federal programs and regulations.

The result was a repeated cycle of promise and disappointment, much like Charlie Brown's attempts to kick the football. Reagan promised to get big government off the people's backs; Clinton promised "Fortune 500"-style health benefits to all Americans forever; Gingrich predicted in January of 1995 that by Easter he would "break up the Washington logjam, shift power to the 50 states, break up all the liberal national organizations." Each group of reformers commenced a headlong charge against the Washington establishment.

Each made rapid gains at first and then was sucked into quicksand.

In eight years, Reagan managed to eliminate only four major federal programs and not many more minor ones. Clinton's health plan collapsed into rubble. As for Gingrich and his Republican revolutionaries, the programs they sought to eliminate not only are still there but have seen their average budget grow by an average of 3 percent since 1995 (according to Stephen Moore of the Cato Institute). In 1999, the Republican Congress gave up altogether on uprooting government programs and went with an across-the-board freeze instead.

Reagan, Clinton, and Gingrich were all leaders of extraordinary talent. They all appeared, at least initially, to enjoy public support and a political mandate. Between them, they tried most of the possible permutations of partisan control of the White House and Congress. Nonetheless, they all failed, each more spectacularly than the last.

In my book *Government's End*, I argue that Washington's imperviousness to comprehensive, rationalizing change goes deeper than the politics and personalities of the moment. The trouble is as deep as arithmetic itself. With very rare exceptions, reformers are almost infinitely less committed to eliminating or reforming any one government program than that program's clients are to maintaining it. The clients, moreover, find easy allies in the reformers' partisan enemies (Democrats against Reagan and Gingrich, Republicans against Clinton). They also normally have little trouble kindling public mistrust of the reformers' motives and the reforms' fairness (Reagan and Gingrich were made to look like mad slashers, Clinton like a Soviet health commissar). Reformers may begin well, but they soon find themselves confronting a coalition that consists of the opposition party, the client groups, and the public. Against that array of forces, there is no hope.

This imbalance of forces, although constantly in flux as political currents shift, never changes fundamentally. If reformers concentrate their energy, fight ferociously, and get some lucky breaks, they can push through important reforms of particular programs. Jimmy Carter's transportation deregulation, Reagan's tax reform, and Gingrich's welfare reform show that once or perhaps twice in a decade politicians can concentrate their energies and enact a landmark reform (of a program or governmental sector, however; not of the whole government). Now and then, they can push a boat across the rapids. But they cannot change the strength or the direction of the current. The bulk of what Washington does remains under the control of the client groups and their coalitions of interest.

If I am right, what you see in Washington today is more or less what you get, forever: a teeming ecology of programs that adapt individually to serve their clients and to stay in business, but that are not collectively susceptible to any comprehensive rationalization or reform. Washington will change constantly, but the nature of its change will be primarily bottom-up and client driven, rather than top-down and voter driven. American voters and politicians are hardly helpless; but they have much less real control over the size, composition, and mission of their government than the civics books promise.

A paradoxical implication is that for the people to get more by way of effective reform, they must expect less. The “revolutionaries” of the past two decades defined success out of reach. Large reforms of significant programs are important, often essential. But when politicians and the public demand nothing less than the impossible—a transformation of government itself—the merely possible looks like failure. Failure breeds cynicism, which in turn feeds backlash, which generates yet more impossible demands for reform. Again and again, the public and politicians take aim at the football and land on their back.

Americans are realistic idealists who, confronted with persistent failure, conform their expectations to reality. They adjust. People do not like what they see in Washington, but they are becoming reconciled to living with government as it is and to changing it in the limited but incrementally useful ways in which it can be changed. The good news, in short, is that the bad news is perhaps finally “in the market” of politics. In the electorate’s current mood may lie the beginning of a more productive and less pathological relationship between Washington and its public. ■

Clearing the Rubble

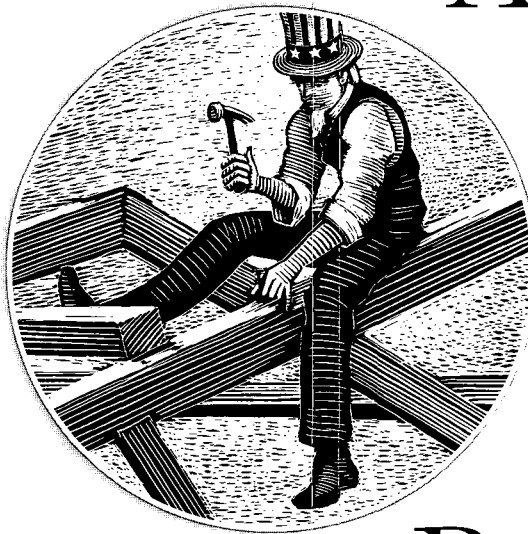
American

Politics

Makes a

New

Beginning



BY E. J. DIONNE, JR.

Jonathan Rauch is surely right about three things. Americans are “realistic idealists.” Current attitudes toward government do promise a “more productive and less pathological relationship between Washington and its public.” And, yes, large-scale change in the federal government is difficult.

But Rauch’s underlying tone of pessimism suggests a view of an immobile Washington that is neither justified by history (recent and not-so-recent) nor in keeping with the current circumstances in politics. Washington has seen more change than Rauch suggests, and more change is in the offing.

Rauch, a brilliant and intellectually fearless dissector of our political system, is always on strong ground when he argues that many of the programs most blatantly skewed to narrow interests—ethanol and sugar subsidies, the several billions for questionable transportation projects, regional programs that have influential congressional sponsors—are difficult to uproot and repeal. In these cases, it’s largely true, as he says, that “reformers are almost infinitely less committed to eliminating or reforming any one government program than that program’s clients are to maintaining it.”

But however bothersome they might be to those who oppose them, these programs are a relatively small part of the federal apparatus. Consider the big changes that have taken place over the past two decades in the big parts of government: overall taxation levels, defense, and the programs for the elderly.

For better or worse—on balance, I think for better—the Washington system has been powerfully flexible on taxes. Ronald Reagan arrived in 1980 promising big tax cuts, and he delivered them. Almost immediately, Congress decided that it had cut taxes too much and enacted some tax increase and loophole-closing measures. In 1986, Congress passed the historic tax reform that Rauch agrees was a very big change in the way taxes

are levied. In 1990, despite his “read my lips” pledge of “no new taxes,” George Bush agreed to a substantial tax increase. In 1993, Congress enacted President Clinton’s tax program, which was broadly redistributive. It raised the top tax rate to more than 39 percent and provided substantial relief and subsidy (through large increases in the earned income tax credit) to lower-income Americans. And, by the way, the Bush and Clinton tax increases helped eliminate the deficit.

However you feel about different parts of this story, it is not a story of stasis or of a federal government incapable of responding to new circumstances or to new marching orders from the electorate. Both the Reagan and Clinton programs were sweeping in their way, and both were enacted at a moment of economic crisis (perceived or real) that gave their sponsors political openings that do not exist in more placid times.

Similarly, the federal government has responded to changes in perceived threats to our nation’s interests by sharply altering military spending. Reagan succeeded in enacting huge increases in the military budget because the nation felt weak and insecure in the face of what many saw as Soviet expansionism (in Afghanistan especially) and the Iranian

Big changes have taken place over the past two decades in the big parts of government: overall taxation levels, defense, and the programs for the elderly.

hostage crisis. One can argue that the military spending increases didn’t have to be as large as they were. That they happened is evidence of a system responding both to new directives from the top and to a reading of public opinion that, if Reagan’s reelection is any indicator, was accurate enough.

Since the Cold War ended, military outlays have been slashed in real terms. For doves, the cuts have not gone far enough. For hawks, they have been debilitating to the military, and political pressure is now rising to increase the military budget again. The merits of the case can be argued in forthcoming issues of this magazine. What cannot be argued is that change—very substantial change—happened.

Social Security and Medicare have been altered a lot over the past two decades, and more change will certainly come. In 1983, at the urging of the Social Security Commission, Congress enacted both big tax increases and substantial benefit cuts (in the form of gradual increases in the retirement age). Congress has steadily made large spending cuts in Medicare that are now calling forth demands that reimbursements to hospitals be increased. In keeping with Rauch’s arguments, it’s true that many members of Congress who say they want to cut Medicare spending also complain when their local hospitals find themselves short of cash. But is that so surprising? Members of Congress have both philosophical commitments and responsibilities to their constituents. All democratic systems that work require the people’s representatives to

E.J. Dionne, Jr., is a senior fellow in the Brookings Governmental Studies program and a columnist for the Washington Post. He is the editor of What’s God Got to Do with the American Experiment? (Brookings, forthcoming) and Community Works: The Revival of Civil Society in America (Brookings, 1998).

find a balance between the two.

It's true that advocates of privatizing Social Security and turning Medicare into a voucher program have found themselves frustrated. From one point of view, this might seem to be a failure. From another point of view, it reflects the popularity of these two large programs and legitimate, widespread fears that radical changes in the way they operate might hurt recipients, especially the most vulnerable recipients. Advocates of privatization and vouchers (who, it's worth noting, are more vocal now than they ever have been) may not like the way things have gone so far. But they haven't failed because of some flaw in "the system." They've failed because they haven't assembled a working political majority.

Rauch does have a point on health care reform overall. It is excruciatingly difficult to change our health care system. The power of the particular interests Rauch is concerned about (documented by David Broder and Haynes Johnson in their book, *The System*) surely has a lot to do with this. But so does

public opinion. Americans are sufficiently mistrustful of the way the health system works that they worry that any changes will only make it worse. They thus hold reformers to a very high—perhaps impossible—standard. This is a genuine problem, but it's not purely a problem of "client groups and their coalitions of interest." The public as a whole, and not just special interest groups, is wary of what change might mean.

Rauch is right that Big Reform is hard. It took decades of agitation to enact Social Security and the Wages and Hours law, Civil Rights and Medicare, airline and transportation deregulation, and changes in welfare. But all those reforms happened, often incrementally. Two relatively modest civil rights bills preceded the big one in 1964 and the Voting Rights Act of 1965. The Social Security law originally covered a much smaller proportion of the population than it does today. Medicare was voted down before it was voted up. The political system of 2000 is just as resistant to such big changes as the political system

has been throughout our history. But is it now more resistant than it ever was?

Our system does have new problems—especially the soaring cost of political campaigns and the resulting need for politicians to raise extraordinary sums of cash from lobbyists and other parties representing narrow client groups. It's also true that a president from one party and a closely divided Congress controlled by the other will have trouble agreeing to any major reforms in this election year.

But the promise Rauch rightly sees of a "less pathological" relationship between voters and Washington is justified for the long haul. That new promise arises not because voters are lowering their expectations, but because they rejected a utopian antigovernment politics that pretended we could slash government and live happily ever after. The rubble left over from the failure of this assault on government is now being cleared away. As a result, we can argue again about what government should do and how it can do what it does better. That's progress. ■



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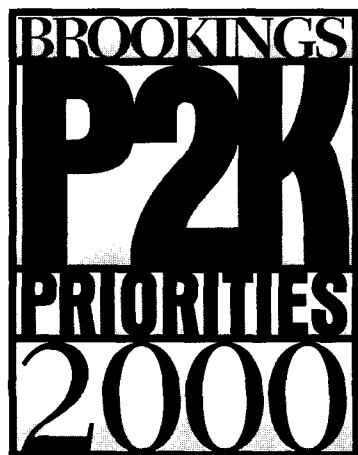
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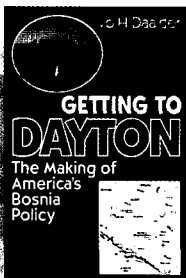
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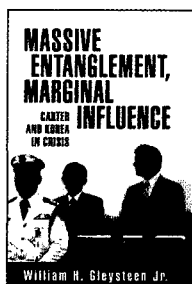
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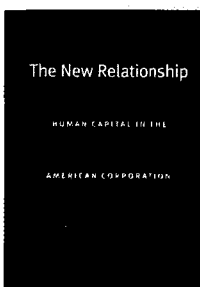
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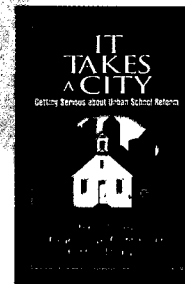
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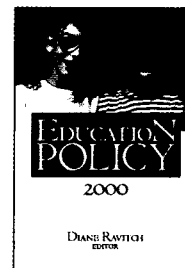
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